

UMPQUA HOLDINGS CORP
Form 10-Q
November 06, 2013

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: September 30, 2013

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____.

Commission File Number: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

OREGON

93-1261319

(State or Other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer Identification Number)

One SW Columbia Street, Suite 1200
Portland, Oregon 97258

(Address of Principal Executive Offices)(Zip Code)

(503) 727-4100

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the latest practical date:

Common stock, no par value: 111,929,202 shares outstanding as of October 31, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

| | September 30, 2013 | December 31, 2012 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$193,188 | \$223,532 |
| Interest bearing deposits | 503,369 | 315,053 |
| Temporary investments | 534 | 5,202 |
| Total cash and cash equivalents | 697,091 | 543,787 |
| Investment securities | | |
| Trading, at fair value | 4,012 | 3,747 |
| Available for sale, at fair value | 1,910,082 | 2,625,229 |
| Held to maturity, at amortized cost | 5,766 | 4,541 |
| Loans held for sale, at fair value | 113,993 | 320,132 |
| Non-covered loans and leases | 7,228,904 | 6,681,080 |
| Allowance for non-covered loan and lease losses | (84,694) | (85,391) |
| Net non-covered loans and leases | 7,144,210 | 6,595,689 |
| Covered loans, net of allowance of \$11,918 and \$18,275 | 397,083 | 477,078 |
| Restricted equity securities | 31,444 | 33,443 |
| Premises and equipment, net | 173,876 | 162,667 |
| Goodwill and other intangible assets, net | 778,094 | 685,331 |
| Mortgage servicing rights, at fair value | 41,853 | 27,428 |
| Non-covered other real estate owned | 18,249 | 17,138 |
| Covered other real estate owned | 2,980 | 10,374 |
| FDIC indemnification asset | 29,427 | 52,798 |
| Other assets | 221,137 | 236,061 |
| Total assets | \$11,569,297 | \$11,795,443 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Noninterest bearing | \$2,421,008 | \$2,278,914 |
| Interest bearing | 6,646,232 | 7,100,361 |
| Total deposits | 9,067,240 | 9,379,275 |
| Securities sold under agreements to repurchase | 215,310 | 137,075 |
| Term debt | 252,017 | 253,605 |
| Junior subordinated debentures, at fair value | 86,718 | 85,081 |
| Junior subordinated debentures, at amortized cost | 101,979 | 110,985 |
| Other liabilities | 120,038 | 105,383 |
| Total liabilities | 9,843,302 | 10,071,404 |
| COMMITMENTS AND CONTINGENCIES (NOTE 10) | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 111,928,762 in 2013 and 111,889,959 in 2012 | 1,513,225 | 1,512,400 |
| Retained earnings | 209,597 | 187,293 |
| Accumulated other comprehensive income | 3,173 | 24,346 |

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| | | |
|--|--------------|--------------|
| Total shareholders' equity | 1,725,995 | 1,724,039 |
| Total liabilities and shareholders' equity | \$11,569,297 | \$11,795,443 |

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (UNAUDITED)

(in thousands, except per share amounts)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| INTEREST INCOME | | | | |
| Interest and fees on non-covered loans and leases | \$93,706 | \$78,090 | \$250,685 | \$233,386 |
| Interest and fees on covered loans and leases | 11,837 | 20,325 | 41,167 | 54,603 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 7,882 | 13,057 | 24,629 | 47,712 |
| Exempt from federal income tax | 2,200 | 2,302 | 6,725 | 6,870 |
| Dividends | 51 | 3 | 165 | 37 |
| Interest on temporary investments and interest bearing deposits | 284 | 331 | 937 | 736 |
| Total interest income | 115,960 | 114,108 | 324,308 | 343,344 |
| INTEREST EXPENSE | | | | |
| Interest on deposits | 4,845 | 7,623 | 16,587 | 24,637 |
| Interest on securities sold under agreement to repurchase and federal funds purchased | 35 | 73 | 99 | 232 |
| Interest on term debt | 2,338 | 2,335 | 6,916 | 6,944 |
| Interest on junior subordinated debentures | 1,933 | 2,037 | 5,815 | 6,124 |
| Total interest expense | 9,151 | 12,068 | 29,417 | 37,937 |
| Net interest income | 106,809 | 102,040 | 294,891 | 305,407 |
| PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES | | | | |
| (RECAPTURE OF) PROVISION FOR COVERED LOAN LOSSES | (1,904 |) 2,927 | (4,744 |) 4,302 |
| Net interest income after provision for (recapture of) loan and lease losses | 105,705 | 92,035 | 286,646 | 284,222 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposit accounts | 8,374 | 7,122 | 22,844 | 20,978 |
| Brokerage commissions and fees | 3,854 | 3,186 | 11,152 | 9,662 |
| Mortgage banking revenue, net | 15,071 | 24,346 | 62,928 | 53,069 |
| Gain on investment securities, net | 3 | 21 | 18 | 1,199 |
| Loss on junior subordinated debentures carried at fair value | (554 |) (554 |) (1,643 |) (1,649 |
| Change in FDIC indemnification asset | (6,474 |) (4,759 |) (19,841 |) (10,644 |
| Other income | 5,870 | 4,317 | 19,198 | 17,227 |
| Total non-interest income | 26,144 | 33,679 | 94,656 | 89,842 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 53,699 | 49,543 | 157,271 | 146,615 |
| Net occupancy and equipment | 16,019 | 13,441 | 45,813 | 40,519 |
| Communications | 2,772 | 2,740 | 8,802 | 8,527 |
| Marketing | 1,596 | 1,104 | 3,753 | 3,855 |
| Services | 6,445 | 5,910 | 18,339 | 18,703 |
| Supplies | 742 | 627 | 2,120 | 1,936 |
| FDIC assessments | 1,709 | 1,699 | 5,032 | 5,553 |

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| | | | | |
|--|----------|----------|----------|----------|
| Net (gain) loss on non-covered other real estate owned | (27 |) 2,168 | (303 |) 6,244 |
| Net (gain) loss on covered other real estate owned | (68 |) 461 | 154 | 3,084 |
| Intangible amortization | 1,186 | 1,189 | 3,595 | 3,612 |
| Merger related expenses | 4,856 | 85 | 7,197 | 338 |
| Other expenses | 6,675 | 8,007 | 17,524 | 22,620 |
| Total non-interest expense | 95,604 | 86,974 | 269,297 | 261,606 |
| Income before provision for income taxes | 36,245 | 38,740 | 112,005 | 112,458 |
| Provision for income taxes | 12,768 | 13,587 | 38,914 | 38,525 |
| Net income | \$23,477 | \$25,153 | \$73,091 | \$73,933 |

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)
 (UNAUDITED)

(in thousands, except per share amounts)

| | Three months ended | | Nine months ended | |
|--|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$23,477 | \$25,153 | \$73,091 | \$73,933 |
| Dividends and undistributed earnings allocated to participating securities | 196 | 170 | 576 | 499 |
| Net earnings available to common shareholders | \$23,281 | \$24,983 | \$72,515 | \$73,434 |
| Earnings per common share: | | | | |
| Basic | \$0.21 | \$0.22 | \$0.65 | \$0.66 |
| Diluted | \$0.21 | \$0.22 | \$0.65 | \$0.65 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 111,912 | 111,899 | 111,934 | 111,928 |
| Diluted | 112,195 | 112,151 | 112,154 | 112,159 |

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (UNAUDITED)

(in thousands)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | \$23,477 | \$25,153 | \$73,091 | \$73,933 |
| Available for sale securities: | | | | |
| Unrealized gains (losses) arising during the period | 5,878 | 1,863 | (35,342) | (2,167) |
| Reclassification adjustment for net gains realized in earnings (net of tax expense \$1 and \$8 for the three months ended September 30, 2013 and 2012, respectively, and net of tax expense of \$7 and \$480 for the nine months ended September 30, 2013 and 2012, respectively) | (2) | (13) | (11) | (719) |
| Income tax (expense) benefit related to unrealized losses | (2,351) | (745) | 14,137 | 867 |
| Net change in unrealized gains (losses) | 3,525 | 1,105 | (21,216) | (2,019) |
| Held to maturity securities: | | | | |
| Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of \$7 and \$23 for the three months ended September 30, 2013 and 2012, respectively, and net of tax benefit of \$29 and \$76 for the nine months ended September 30, 2013 and 2012, respectively) | 11 | 35 | 43 | 114 |
| Net change in unrealized losses related to factors other than credit | 11 | 35 | 43 | 114 |
| Other comprehensive income (loss), net of tax | 3,536 | 1,140 | (21,173) | (1,905) |
| Comprehensive income | \$27,013 | \$26,293 | \$51,918 | \$72,028 |

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (UNAUDITED)

(in thousands, except shares)

| | Common Stock | | Retained | Accumulated Other Comprehensive | |
|---|--------------|-------------|-----------|---------------------------------------|-------------|
| | Shares | Amount | Earnings | Income | Total |
| BALANCE AT JANUARY 1, 2012 | 112,164,891 | \$1,514,913 | \$123,726 | \$33,774 | \$1,672,413 |
| Net income | | | 101,891 | | 101,891 |
| Other comprehensive loss, net of tax | | | | (9,428) | (9,428) |
| Comprehensive income | | | | | \$92,463 |
| Stock-based compensation | | 4,041 | | | 4,041 |
| Stock repurchased and retired | (596,000) | (7,436) | | | (7,436) |
| Issuances of common stock under stock plans and related net tax benefit | 321,068 | 882 | | | 882 |
| Cash dividends on common stock (\$0.34 per share) | | | (38,324) | | (38,324) |
| Balance at December 31, 2012 | 111,889,959 | \$1,512,400 | \$187,293 | \$24,346 | \$1,724,039 |
| BALANCE AT JANUARY 1, 2013 | 111,889,959 | \$1,512,400 | \$187,293 | \$24,346 | \$1,724,039 |
| Net income | | | 73,091 | | 73,091 |
| Other comprehensive loss, net of tax | | | | (21,173) | (21,173) |
| Comprehensive income | | | | | \$51,918 |
| Stock-based compensation | | 3,531 | | | 3,531 |
| Stock repurchased and retired | (319,164) | (4,704) | | | (4,704) |
| Issuances of common stock under stock plans and related net tax benefit | 357,967 | 1,998 | | | 1,998 |
| Cash dividends on common stock (\$0.45 per share) | | | (50,787) | | (50,787) |
| Balance at September 30, 2013 | 111,928,762 | \$1,513,225 | \$209,597 | \$3,173 | \$1,725,995 |

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)
 (in thousands)

| | Nine months ended September 30, | |
|---|------------------------------------|--------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$73,091 | \$73,933 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of investment premiums, net | 27,984 | 33,023 |
| Gain on sale of investment securities, net | (18 |) (1,199 |
| (Gain) loss on sale of non-covered other real estate owned | (751 |) 481 |
| Gain on sale of covered other real estate owned | (549 |) (1,031 |
| Valuation adjustment on non-covered other real estate owned | 448 | 5,763 |
| Valuation adjustment on covered other real estate owned | 703 | 4,115 |
| Provision for non-covered loan and lease losses | 12,989 | 16,883 |
| (Recapture of) provision for covered loan losses | (4,744 |) 4,302 |
| Proceeds from bank owned life insurance | 1,173 | — |
| Change in FDIC indemnification asset | 19,841 | 10,644 |
| Depreciation, amortization and accretion | 13,292 | 11,848 |
| Increase in mortgage servicing rights | (15,182 |) (11,923 |
| Change in mortgage servicing rights carried at fair value | 757 | 5,618 |
| Change in junior subordinated debentures carried at fair value | 1,637 | 1,633 |
| Stock-based compensation | 3,531 | 2,981 |
| Net increase in trading account assets | (265 |) (744 |
| Gain on sale of loans | (52,899 |) (50,668 |
| Change in loans held for sale carried at fair value | 11,099 | (11,324 |
| Origination of loans held for sale | (1,368,902 |) (1,359,520 |
| Proceeds from sales of loans held for sale | 1,614,097 | 1,294,321 |
| Excess tax benefits from the exercise of stock options | (40 |) (51 |
| Change in other assets and liabilities: | | |
| Net decrease (increase) in other assets | 34,007 | (9,348 |
| Net (decrease) increase in other liabilities | (11,983 |) 22,493 |
| Net cash provided by operating activities | 359,316 | 42,230 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investment securities available for sale | (51,191 |) (784,797 |
| Purchases of investment securities held to maturity | (2,126 |) (931 |
| Proceeds from investment securities available for sale | 702,910 | 1,018,791 |
| Proceeds from investment securities held to maturity | 1,073 | 511 |
| Redemption of restricted equity securities | 1,999 | 1,216 |
| Net non-covered loan and lease originations | (352,390 |) (391,733 |
| Net covered loan paydowns | 68,819 | 85,510 |
| Proceeds from sales of non-covered loans | 60,298 | 13,496 |
| Proceeds from insurance settlement on loss of property | 575 | 1,425 |
| Proceeds from fee on termination of merger transaction | — | 1,600 |
| Proceeds from disposals of furniture and equipment | 330 | 1,700 |
| Purchases of premises and equipment | (25,575 |) (17,155 |
| Net proceeds from FDIC indemnification asset | 4,621 | 26,615 |

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| | | |
|--|----------|-----------|
| Proceeds from sales of non-covered other real estate owned | 13,940 | 18,834 |
| Proceeds from sales of covered other real estate owned | 9,794 | 11,523 |
| Net cash paid in acquisition | (149,658 |) — |
| Net cash provided (used) by investing activities | 283,419 | (13,395) |

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 (UNAUDITED)

(in thousands)

| | Nine months ended September 30, | |
|--|------------------------------------|--------------|
| | 2013 | 2012 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net decrease in deposit liabilities | (311,708 |) (136,519) |
| Net increase in securities sold under agreements to repurchase | 78,235 | 36,446 |
| Repayment of term debt | (211,204 |) — |
| Repayment of junior subordinated debentures | (8,764 |) — |
| Dividends paid on common stock | (33,837 |) (25,919) |
| Excess tax benefits from stock based compensation | 40 | 51 |
| Proceeds from stock options exercised | 2,511 | 324 |
| Retirement of common stock | (4,704 |) (5,378) |
| Net cash used by financing activities | (489,431 |) (130,995) |
| Net increase (decrease) in cash and cash equivalents | 153,304 | (102,160) |
| Cash and cash equivalents, beginning of period | 543,787 | 598,766 |
| Cash and cash equivalents, end of period | \$697,091 | \$496,606 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$32,419 | \$40,653 |
| Income taxes | \$27,711 | \$31,825 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Change in unrealized losses on investment securities available for sale, net of taxes | \$(21,216 |) \$(2,019) |
| Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes | \$43 | \$114 |
| Cash dividend declared on common stock and payable after period-end | \$16,930 | \$10,140 |
| Transfer of non-covered loans to non-covered other real estate owned | \$14,747 | \$10,167 |
| Transfer of covered loans to covered other real estate owned | \$2,554 | \$3,227 |
| Transfer of covered loans to non-covered loans | \$13,366 | \$14,367 |
| Transfer from FDIC indemnification asset to due from FDIC and other | \$3,530 | \$19,939 |
| Acquisitions: | | |
| Assets acquired | \$376,071 | \$— |
| Liabilities assumed | \$219,961 | \$— |

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as “we”, “our” or “the Company”) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2012 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2012 Annual Report filed on Form 10-K. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2013 for potential recognition or disclosure. In management’s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Note 2 – Business Combinations

Sterling Financial Corporation

On September 11, 2013, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sterling Financial Corporation, a Washington corporation ("Sterling"). The Merger Agreement provides that Sterling will merge with and into the Company (the "Merger"), with the Company as the surviving corporation in the Merger. Immediately following the Merger, Sterling's wholly owned subsidiary, Sterling Savings Bank, will merge with and into the Bank (the "Bank Merger"), with the Bank as the surviving bank in the Bank Merger. Holders of shares of common stock of Sterling will have the right to receive 1.671 shares of the Company's common stock and \$2.18 in cash for each share of Sterling common stock.

The completion of the Merger is subject to customary conditions, including (1) adoption of the Merger Agreement by Sterling's shareholders and by the Company's shareholders, (2) approval of an amendment to the Company's articles of incorporation to increase the number of authorized shares of the Company's common stock, (3) authorization for listing on the NASDAQ of the shares of the Company's common stock to be issued in the Merger, (4) the receipt of required regulatory approvals for the Merger and the Bank Merger from the Federal Reserve Board, Federal Deposit Insurance Corporation and Oregon and Washington state bank regulators, in each case without the imposition of any materially burdensome regulatory condition, (5) effectiveness of the registration statement on Form S-4 for the Company's common stock to be issued in the Merger, and (6) the absence of any order, injunction or other legal restraint preventing the completion of the Merger or making the completion of the Merger illegal. Each party's obligation to complete the Merger is also subject to certain additional customary conditions. The Merger Agreement provides certain termination rights for both the Company and Sterling and further provides that, upon termination of the Merger Agreement under certain circumstances, the Company or Sterling, as applicable, will be obligated to pay the other party a termination fee of \$75 million.

The Merger is expected to be completed in the first half of 2014. A summary of the terms of the Merger Agreement and other related agreements are summarized in, and the Merger Agreement has been filed as an exhibit to, the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on September 17, 2013.

Financial Pacific Holding Corp.

On July 1, 2013, the Bank acquired Financial Pacific Holding Corp. ("FPHC") based in Federal Way, Washington, and its subsidiary, Financial Pacific Leasing, Inc ("FinPac Leasing"), and its subsidiaries, Financial Pacific Funding, Inc. ("FPF"), Financial Pacific Funding II, Inc. ("FPF II") and Financial Pacific Funding III, Inc. ("FPF III"). As part of the same transaction, the Company acquired two related entities, FPC Leasing Corporation ("FPC") and Financial Pacific Reinsurance Co., Ltd. ("FPR"). FPHC, FinPac Leasing, FPF, FPF II, FPF III, FPC and FPR are collectively referred to herein as "FinPac". FinPac provides business-essential commercial equipment leases to various industries throughout the United States and Canada. It originates leases through its brokers, lessors, and direct marketing programs. The results of FinPac's operations are included in the consolidated financial statements as of July 1, 2013.

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The aggregate consideration for the FinPac purchase was \$158.0 million. Of that amount, \$156.1 was distributed in cash, and \$1.9 million was exchanged for restricted shares of the Company stock. The restricted shares were issued from the Company's 2013 Incentive Plan pursuant to employment agreements between the Company and certain executives of FinPac, vest over a period of either two or three years, and will be recognized over that time period within the salaries and employee benefits line item on the Consolidated Statements of Income. The structure of the transaction was as follows:

The Bank acquired all of the outstanding stock of FPHC, a shell holding company, which is the sole shareholder of FinPac Leasing, the primary operating subsidiary of FinPac that engages in equipment leasing and financing activities, and is also the sole shareholder of FPF and FPF III, which are bankruptcy-remote entities that serve as lien holder for certain leases. FinPac Leasing is also the sole shareholder of FPF II, which no longer engages in any activities or holds any assets and is anticipated to be wound up in the near future.

The Company acquired all of the outstanding stock of FPC, a Canadian leasing subsidiary, and FPR, a corporation organized in the Turks & Caicos Islands that reinsures a portion of the liability risk of each insurance policy that is issued by a third party insurance company on leased equipment when the lessee fails to meet its contractual obligations under the lease or financing agreement to obtain insurance on the leased equipment.

The acquisition provides diversification, and a scalable platform that is consistent with expansion initiatives that the Bank has completed over the last three years, including growth in the business banking, agricultural lending and home builder lending groups. The transaction leverages excess capital of the Company and deploys excess liquidity into significantly higher yielding assets, provides growth and diversification, and is anticipated to increase profitability. There is no tax deductible goodwill or other intangibles.

The operations of FinPac are included in our operating results from July 1, 2013, and added revenue of \$14.8 million, non-interest expense of \$3.5 million, and net income of \$6.0 million net of tax, for the three and nine months ended September 30, 2013. FinPac's results of operations prior to the acquisition are not included in our operating results. Merger related expenses of \$629,000 and \$1.4 million for the three and nine months ended September 30, 2013 have been incurred in connection with the acquisition of FinPac and are recognized within the merger related expenses line item on the Consolidated Statements of Income.

A summary of the net assets acquired and the estimated fair value adjustments of FinPac are presented below:
(in thousands)

| | FinPac July 1, 2013 | |
|-----------------------------------|------------------------|---|
| Cost basis net assets | \$61,446 | |
| Cash payment paid | (156,110) |) |
| Fair value adjustments: | | |
| Non-covered loans and leases, net | 6,881 | |
| Other intangible assets | (8,516) |) |
| Other assets | (1,650) |) |
| Term debt | (400) |) |
| Other liabilities | 1,355 | |
| Goodwill | \$(96,994) |) |

The statement of assets acquired and liabilities assumed at their fair values of FinPac are presented below. Additional adjustments to the purchase price allocation may be required, specifically to leases, other assets, other liabilities and taxes.

(in thousands)

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| | FinPac July 1, 2013 |
|-----------------------------------|------------------------|
| Assets Acquired: | |
| Cash and equivalents | \$6,452 |
| Non-covered loans and leases, net | 264,336 |
| Premises and equipment | 491 |
| Goodwill | 96,994 |
| Other assets | 7,798 |
| Total assets acquired | \$376,071 |
| Liabilities Assumed: | |
| Term debt | 211,204 |
| Other liabilities | 8,757 |
| Total liabilities assumed | 219,961 |
| Net Assets Acquired | \$156,110 |

Non-covered leases acquired from FinPac that are not subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30") are presented below at acquisition: (in thousands)

| | FinPac July 1, 2013 |
|--|------------------------|
| Contractually required payments | \$350,403 |
| Purchase adjustment for credit | \$(20,520) |
| Balance of non-covered loans and leases, net | \$264,336 |

The following tables present unaudited pro forma results of operations for the three and nine months ended September 30, 2013 and 2012 as if the acquisition of FinPac had occurred on January 1, 2012. The proforma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisitions actually occurred on January 1, 2012.

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(in thousands, except per share data)

| | Three months ended September 30, 2013 | | | |
|--|---------------------------------------|------------|-----------------------|--------------------|
| | Company | FinPac (a) | Pro Forma Adjustments | Pro Forma Combined |
| Net interest income | \$92,311 | \$14,498 | \$(1,121)) (b) | \$105,688 |
| Provision for non-covered loan and lease losses | 1,228 | 1,780 | 1,524 (d) | 4,532 |
| Recapture of provision for covered loan losses | (1,904) |)— | — | (1,904) |
| Non-interest income | 25,815 | 329 | — | 26,144 |
| Non-interest expense | 92,108 | 3,496 | (474)) (c) | 95,130 |
| Income before provision for income taxes | 26,694 | 9,551 | (2,171)) | 34,074 |
| Provision for income taxes | 9,169 | 3,599 | (868)) (e) | 11,900 |
| Net income | 17,525 | 5,952 | (1,303)) | 22,174 |
| Dividends and undistributed earnings allocated to participating securities | 196 | — | 52 | 248 |
| Net earnings available to common shareholders | \$17,329 | \$5,952 | \$(1,355)) | \$21,926 |
| Earnings per share: | | | | |
| Basic | \$0.15 | | | \$0.20 |
| Diluted | \$0.15 | | | \$0.20 |
| Average shares outstanding: | | | | |
| Basic | 111,912 | | | 111,912 |
| Diluted | 112,195 | | | 112,195 |

(a) FinPac amounts represent results from July 1, 2013 to September 30, 2013.

(b) Consists of change in yields due to fair value adjustments.

(c) Consists of merger related expenses of \$629,000 at the Bank, additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.

(d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.

(e) Income tax effect of pro forma adjustments at 40%.

(in thousands, except per share data)

| | Nine months ended September 30, 2013 | | | |
|--|--------------------------------------|------------|-----------------------|--------------------|
| | Company | FinPac (a) | Pro Forma Adjustments | Pro Forma Combined |
| Net interest income | \$280,393 | \$40,024 | \$(1,513)) (b) | \$318,904 |
| Provision for non-covered loan and lease losses | 11,209 | 5,052 | 4,565 (d) | 20,826 |
| Recapture of provision for covered loan losses | (4,744) |)— | — | (4,744) |
| Non-interest income | 94,327 | 1,641 | — | 95,968 |
| Non-interest expense | 265,801 | 11,784 | (1,802)) (c) | 275,783 |
| Income before provision for income taxes | 102,454 | 24,829 | (4,276)) | 123,007 |
| Provision for income taxes | 35,315 | 9,434 | (1,710)) (e) | 43,039 |
| Net income | 67,139 | 15,395 | (2,566)) | 79,968 |
| Dividends and undistributed earnings allocated to participating securities | 576 | — | 110 | 686 |
| Net earnings available to common shareholders | \$66,563 | \$15,395 | \$(2,676)) | \$79,282 |
| Earnings per share: | | | | |
| Basic | \$0.59 | | | \$0.71 |
| Diluted | \$0.59 | | | \$0.71 |
| Average shares outstanding: | | | | |
| Basic | 111,934 | | | 111,934 |
| Diluted | 112,154 | | | 112,154 |

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- (a) FinPac amounts represent results from January 1, 2013 to September 30, 2013.
 (b) Consists of interest expense benefit of FinPac utilizing Bank funding, and change in yields due to fair value adjustments.
 (c) Consists of merger related expenses of \$1.4 million at the Bank, additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.
 (d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.
 (e) Income tax effect of pro forma adjustments at 40%.

(in thousands, except per share data)

| | Three months ended September 30, 2012 | | | |
|--|---------------------------------------|------------|-----------------------|--------------------|
| | Company | FinPac (a) | Pro Forma Adjustments | Pro Forma Combined |
| Net interest income | \$102,040 | \$12,030 | \$1,167 | (b) \$115,237 |
| Provision for non-covered loan and lease losses | 7,078 | 2,516 | 1,361 | (d) 10,955 |
| Provision for covered loan losses | 2,927 | — | — | 2,927 |
| Non-interest income | 33,679 | 749 | — | 34,428 |
| Non-interest expense | 86,974 | 3,836 | (303) | (c) 90,507 |
| Income before provision for income taxes | 38,740 | 6,427 | 109 | 45,276 |
| Provision for income taxes | 13,587 | 2,425 | 44 | (e) 16,056 |
| Net income | 25,153 | 4,002 | 65 | 29,220 |
| Dividends and undistributed earnings allocated to participating securities | 170 | — | 27 | 197 |
| Net earnings available to common shareholders | \$24,983 | \$4,002 | \$38 | \$29,023 |
| Earnings per share: | | | | |
| Basic | \$0.22 | | | \$0.26 |
| Diluted | \$0.22 | | | \$0.26 |
| Average shares outstanding: | | | | |
| Basic | 111,899 | | | 111,899 |
| Diluted | 112,151 | | | 112,151 |

- (a) FinPac amounts represent results from July 1, 2012 to September 30, 2012.
 (b) Consists of interest expense benefit of FinPac utilizing Bank funding, and change in yields due to fair value adjustments.
 (c) Consists of additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.
 (d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.
 (e) Income tax effect of pro forma adjustments at 40%.

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(in thousands, except per share data)

| | Nine months ended September 30, 2012 | | | |
|--|--------------------------------------|------------|--------------------------|-----------------------|
| | Company | FinPac (a) | Pro Forma Adjustments | Pro Forma Combined |
| Net interest income | \$305,407 | \$35,897 | \$3,509 | (b) \$344,813 |
| Provision for non-covered loan and lease losses | 16,883 | 8,213 | 415 | (d) 25,511 |
| Provision for covered loan losses | 4,302 | — | — | 4,302 |
| Non-interest income | 89,842 | 2,751 | — | 92,593 |
| Non-interest expense | 261,606 | 11,545 | (910 |) (c) 272,241 |
| Income before provision for income taxes | 112,458 | 18,890 | 4,004 | 135,352 |
| Provision for income taxes | 38,525 | 7,131 | 1,601 | (e) 47,257 |
| Net income | 73,933 | 11,759 | 2,403 | 88,095 |
| Dividends and undistributed earnings allocated to participating securities | 499 | — | 96 | 595 |
| Net earnings available to common shareholders | \$73,434 | \$11,759 | \$2,307 | \$87,500 |
| Earnings per share: | | | | |
| Basic | \$0.66 | | | \$0.78 |
| Diluted | \$0.65 | | | \$0.78 |
| Average shares outstanding: | | | | |
| Basic | 111,928 | | | 111,928 |
| Diluted | 112,159 | | | 112,159 |

(a) FinPac amounts represent results from January 1, 2012 to September 30, 2012.

(b) Consists of interest expense benefit of FinPac utilizing Bank funding, and change in yields due to fair value adjustments.

(c) Consists of additional expense related to restricted stock, and FinPac amortization of intangible assets, director compensation and travel, and management fees.

(d) Consists of adjustment to FinPac provision for credit losses due to purchase accounting adjustments.

(e) Income tax effect of pro forma adjustments at 40%.

Circle Bancorp

On November 14, 2012, the Company acquired all of the assets and liabilities of Circle Bancorp (“Circle”), which has been accounted for under the acquisition method of accounting for cash consideration of \$24.9 million, including the redemption of all common and preferred shares and outstanding warrants and options. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates, and are subject to change for up to one year after the closing date of the acquisition. This acquisition was consistent with the Company's overall banking expansion strategy and provided further opportunity to enter growth markets in the San Francisco Bay Area of California. Upon completion of the acquisition, all Circle Bank branches operated under the Umpqua Bank name. The acquisition added Circle Bank's network of six branches in Corte Madera, Novato, Petaluma, San Francisco, San Rafael and Santa Rosa, California to Umpqua Bank's network of locations in California, Oregon, Washington and Nevada. The application of the acquisition method of accounting resulted in the recognition of \$11.9 million of goodwill. There is no tax deductible goodwill or other intangibles.

The operations of Circle are included in our operating results from November 15, 2012, and added revenue of \$4.2 million and \$13.3 million, non-interest expense of \$1.3 million and \$5.2 million, and net income of \$1.7 million and \$4.5 million net of tax, for the three and nine months ended September 30, 2013. Circle's results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of \$32,000 and \$981,000 for the three and nine months ended September 30, 2013 have been incurred in connection with the acquisition of Circle and recognized within the merger related expenses line item on the Consolidated Statements of Income.

A summary of the net assets acquired and the estimated fair value adjustments of Circle are presented below:

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(in thousands)

| | Circle Bank November 14, 2012 | |
|-------------------------------------|----------------------------------|---|
| Cost basis net assets | \$17,127 | |
| Cash payment paid | (24,860 |) |
| Fair value adjustments: | | |
| Non-covered loans and leases, net | (2,622 |) |
| Other intangible assets | 830 | |
| Non-covered other real estate owned | (487 |) |
| Deposits | (904 |) |
| Term debt | (2,404 |) |
| Other | 1,398 | |
| Goodwill | \$(11,922 |) |

The statement of assets acquired and liabilities assumed at their fair values of Circle are presented below:
(in thousands)

| | Circle Bank November 14, 2012 | |
|-------------------------------------|----------------------------------|--|
| Assets Acquired: | | |
| Cash and equivalents | \$39,328 | |
| Investment securities | 793 | |
| Non-covered loans and leases, net | 246,665 | |
| Premises and equipment | 7,695 | |
| Restricted equity securities | 2,491 | |
| Goodwill | 11,922 | |
| Other intangible assets | 830 | |
| Non-covered other real estate owned | 1,602 | |
| Other assets | 6,469 | |
| Total assets acquired | \$317,795 | |
| Liabilities Assumed: | | |
| Deposits | \$250,408 | |
| Junior subordinated debentures | 8,764 | |
| Term debt | 55,404 | |
| Other liabilities | 3,219 | |
| Total liabilities assumed | \$317,795 | |

Non-covered loans acquired from Circle that are not subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30") are presented below at acquisition:
(in thousands)

| | November 14, 2012 |
|---|----------------------|
| Contractually required principal payments | \$242,999 |
| Purchase adjustment for credit | (5,760) |
| Balance of performing non-covered loans | \$240,850 |

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Non-covered loans acquired from Circle that are subject to the requirements of ASC 310-30 are presented below at acquisition and as of September 30, 2013 and December 31, 2012:

(in thousands)

| | November 14, 2012 | December 31, 2012 | September 30, 2013 |
|---|----------------------|----------------------|-----------------------|
| Contractually required principal payments | \$12,252 | \$12,231 | \$5,606 |
| Carrying balance of acquired purchase credit impaired non-covered loans | \$5,815 | \$5,809 | \$2,263 |

The acquisition of Circle is not considered significant to the Company's financial statements and therefore pro forma financial information is not included.

Note 3 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2013 and December 31, 2012:

September 30, 2013

(in thousands)

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|--|-------------------|---------------------|----------------------|---------------|
| AVAILABLE FOR SALE: | | | | |
| U.S. Treasury and agencies | \$256 | \$22 | \$— | \$278 |
| Obligations of states and political subdivisions | 233,499 | 9,146 | (2,114 |) 240,531 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,668,904 | 18,140 | (19,900 |) 1,667,144 |
| Other debt securities | 60 | 74 | — | 134 |
| Investments in mutual funds and other equity securities | 1,959 | 36 | — | 1,995 |
| | \$1,904,678 | \$27,418 | \$(22,014 |) \$1,910,082 |
| HELD TO MATURITY: | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | \$5,766 | \$265 | \$(1 |) \$6,030 |
| | \$5,766 | \$265 | \$(1 |) \$6,030 |

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December 31, 2012

(in thousands)

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|--|-------------------|---------------------|----------------------|---------------|
| AVAILABLE FOR SALE: | | | | |
| U.S. Treasury and agencies | \$45,503 | \$318 | \$(1) | \$45,820 |
| Obligations of states and political subdivisions | 245,606 | 18,119 | — | 263,725 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,291,253 | 28,747 | (6,624) | 2,313,376 |
| Other debt securities | 143 | 79 | — | 222 |
| Investments in mutual funds and other equity securities | 1,959 | 127 | — | 2,086 |
| | \$2,584,464 | \$47,390 | \$(6,625) | \$2,625,229 |
| HELD TO MATURITY: | | | | |
| Obligations of states and political subdivisions | \$595 | \$1 | \$— | \$596 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 3,946 | 197 | (7) | 4,136 |
| | \$4,541 | \$198 | \$(7) | \$4,732 |

Investment securities that were in an unrealized loss position as of September 30, 2013 and December 31, 2012 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

September 30, 2013

(in thousands)

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|--|---------------------|----------------------|---------------------|----------------------|---------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| AVAILABLE FOR SALE: | | | | | | |
| U.S. Treasury and agencies | \$— | \$— | \$— | \$— | \$— | \$— |
| Obligations of states and political subdivisions | 47,814 | 2,114 | — | — | 47,814 | 2,114 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 440,921 | 13,680 | 264,968 | 6,220 | 705,889 | 19,900 |
| Total temporarily impaired securities | \$488,735 | \$15,794 | \$264,968 | \$6,220 | \$753,703 | \$22,014 |
| HELD TO MATURITY: | | | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | \$— | \$— | \$46 | \$1 | \$46 | \$1 |
| Total temporarily impaired securities | \$— | \$— | \$46 | \$1 | \$46 | \$1 |

Unrealized losses on the impaired held to maturity collateralized mortgage obligations include the unrealized losses related to factors other than credit that are included in other comprehensive income.

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December 31, 2012

(in thousands)

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|--|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| AVAILABLE FOR SALE: | | | | | | |
| U.S. Treasury and agencies | \$— | \$— | \$59 | \$1 | \$59 | \$1 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 780,234 | 5,548 | 106,096 | 1,076 | 886,330 | 6,624 |
| Total temporarily impaired securities | \$780,234 | \$5,548 | \$106,155 | \$1,077 | \$886,389 | \$6,625 |
| HELD TO MATURITY: | | | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | \$— | \$— | \$48 | \$7 | \$48 | \$7 |
| Total temporarily impaired securities | \$— | \$— | \$48 | \$7 | \$48 | \$7 |

The unrealized losses on investments in U.S. Treasury and agency securities were caused by interest rate increases subsequent to the purchase of these securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of September 30, 2013. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at September 30, 2013 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment (“OTTI”) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if we intend to sell the security or it is likely that we will be

required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (“OCI”). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively

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based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above.

The following table presents the maturities of investment securities at September 30, 2013:

(in thousands)

| | Available For Sale | | Held To Maturity | |
|---|--------------------|-------------|------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| AMOUNTS MATURING IN: | | | | |
| Three months or less | \$18,573 | \$18,569 | \$— | \$— |
| Over three months through twelve months | 191,763 | 194,660 | 338 | 378 |
| After one year through five years | 1,294,846 | 1,303,726 | 863 | 1,085 |
| After five years through ten years | 361,759 | 354,446 | 89 | 89 |
| After ten years | 35,778 | 36,687 | 4,476 | 4,478 |
| Other investment securities | 1,959 | 1,994 | — | — |
| | \$1,904,678 | \$1,910,082 | \$5,766 | \$6,030 |

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties.

The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| | Three months ended September 30, 2013 | | Three months ended September 30, 2012 | |
|--|--|--------|--|--------|
| | Gains | Losses | Gains | Losses |
| U.S. Treasury and agencies | \$— | \$— | \$— | \$— |
| Obligations of states and political subdivisions | 3 | — | 8 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | — | — | — | — |
| Other debt securities | — | — | 13 | — |
| | \$3 | \$— | \$21 | \$— |

(in thousands)

| | Nine months ended September 30, 2013 | | Nine months ended September 30, 2012 | |
|--|---|--------|---|--------|
| | Gains | Losses | Gains | Losses |
| U.S. Treasury and agencies | \$— | \$— | \$371 | \$— |
| Obligations of states and political subdivisions | 10 | 1 | 10 | 1 |
| Residential mortgage-backed securities and collateralized mortgage obligations | — | — | 1,484 | 683 |
| Other debt securities | 9 | — | 18 | — |
| | \$19 | \$1 | \$1,883 | \$684 |

The following table presents, as of September 30, 2013, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

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(in thousands)

| | Amortized Cost | Fair Value |
|--|-------------------|---------------|
| To Federal Home Loan Bank to secure borrowings | \$16,831 | \$17,287 |
| To state and local governments to secure public deposits | 810,529 | 808,734 |
| Other securities pledged principally to secure repurchase agreements | 307,164 | 304,093 |
| Total pledged securities | \$1,134,524 | \$1,130,114 |

Note 4 – Non-Covered Loans and Leases

The following table presents the major types of non-covered loans and leases recorded in the balance sheets as of September 30, 2013 and December 31, 2012:

(in thousands)

| | September 30, 2013 | December 31, 2012 |
|----------------------------|-----------------------|----------------------|
| Commercial real estate | | |
| Term & multifamily | \$4,005,983 | \$3,938,443 |
| Construction & development | 247,809 | 202,118 |
| Residential development | 78,998 | 57,209 |
| Commercial | | |
| Term | 769,173 | 797,802 |
| LOC & other | 1,283,129 | 923,328 |
| Residential | | |
| Mortgage | 550,200 | 476,579 |
| Home equity loans & lines | 256,202 | 260,797 |
| Consumer & other | 43,621 | 37,327 |
| Total | 7,235,115 | 6,693,603 |
| Deferred loan fees, net | (6,211) | (12,523) |
| Total | \$7,228,904 | \$6,681,080 |

As of September 30, 2013, loans totaling \$5.4 billion were pledged to secure borrowings and available lines of credit.

At September 30, 2013, non-covered loans accounted for under ASC 310-30 were \$24.7 million. At December 31, 2012, non-covered accounted for under ASC 310-30 were \$19.3 million.

Note 5 – Allowance for Non-Covered Loan and Lease Loss and Credit Quality

The Bank has a management Allowance for Loan and Lease Losses (“ALLL”) Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Our methodology for assessing the appropriateness of the ALLL consists of three key elements, which include 1) the formula allowance; 2) the specific allowance; and 3) the unallocated allowance. By incorporating these factors into a single allowance requirement analysis, all risk-based activities within the loan portfolio are simultaneously considered.

Formula Allowance

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically

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during the term of the loan or lease through the credit review process. The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the formula allowance.

The formula allowance is calculated by applying risk factors to various segments of pools of outstanding loans and leases. Risk factors are assigned to each portfolio segment based on management's evaluation of the losses inherent within each segment. Segments or regions with greater risk of loss will therefore be assigned a higher risk factor.

Base risk – The portfolio is segmented into loan categories, and these categories are assigned a Base Risk factor based on an evaluation of the loss inherent within each segment.

Extra risk – Additional risk factors provide for an additional allocation of ALLL based on the loan and lease risk rating system and loan delinquency, and reflect the increased level of inherent losses associated with more adversely classified loans and leases.

Changes to risk factors – Risk factors are assigned at origination and may be changed periodically based on management's evaluation of the following factors: loss experience; changes in the level of non-performing loans and leases; regulatory exam results; changes in the level of adversely classified loans and leases (positive or negative); improvement or deterioration in local economic conditions; and any other factors deemed relevant.

Specific Allowance

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired, when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the formula allowance so as not to double-count the loss exposure. The non-accrual impaired loans as of period end have already been partially charged-off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

The combination of the formula allowance component and the specific allowance component represents the allocated allowance for loan and lease losses.

Unallocated Allowance

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed quarterly with consideration of factors including, but not limited to:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

- Changes in the nature and volume of the portfolio and in the terms of loans and leases;
- Changes in the experience and ability of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans and leases, and the volume and severity of adversely classified or graded loans;
- Changes in the quality of the institution's loan and lease review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions' existing portfolio.

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These factors are evaluated through a management survey of the Chief Credit Officer, Chief Lending Officer, Senior Credit Officers, Special Assets Manager, and Credit Review Manager. The survey requests responses to evaluate current changes in the nine qualitative factors. This information is then incorporated into our understanding of the reasonableness of the formula factors and our evaluation of the unallocated portion of the ALLL.

Management believes that the ALLL was adequate as of September 30, 2013. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 75% of our loan and lease portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The recent U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our loan and lease portfolio. A continued deterioration in our markets may adversely affect our loan and lease portfolio and may lead to additional charges to the provision for loan and lease losses.

The reserve for unfunded commitments (“RUC”) is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management’s evaluation of numerous factors. For each portfolio segment, these factors include:

- The quality of the current loan and lease portfolio;
- The trend in the loan portfolio's risk ratings;
- Current economic conditions;
- Loan and lease concentrations;
- Loan and lease growth rates;
- Past-due and non-performing trends;
- Evaluation of specific loss estimates for all significant problem loans;
- Historical short (one year), medium (three year), and long-term charge-off rates;
- Recovery experience; and
- Peer comparison loss rates.

There have been no significant changes to the Bank’s methodology or policies in the periods presented.

Activity in the Non-Covered Allowance for Loan and Lease Losses

The following table summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan and lease portfolio segment for three and nine months ended September 30, 2013 and 2012, respectively:

(in thousands)

| | Three months ended September 30, 2013 | | | | | Unallocated | Total |
|------------------------------|---------------------------------------|------------|-------------|------------------|-----|-------------|-------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | | | |
| Balance, beginning of period | \$55,249 | \$21,587 | \$8,250 | \$750 | \$— | \$85,836 | |
| Charge-offs | (3,101) | (1,754) | (1,181) | (281) | — | (6,317) | |
| Recoveries | 880 | 1,101 | 41 | 145 | — | 2,167 | |
| Provision | 565 | 2,346 | (68) | 165 | — | 3,008 | |
| Balance, end of period | \$53,593 | \$23,280 | \$7,042 | \$779 | \$— | \$84,694 | |

Three months ended September 30, 2012

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| | Commercial | | Residential | Consumer | | Unallocated | Total |
|------------------------------|-------------|------------|-------------|----------|------|-------------|----------|
| | Real Estate | Commercial | | & Other | | | |
| Balance, beginning of period | \$56,341 | \$19,587 | \$6,652 | \$1,038 | \$— | | \$83,618 |
| Charge-offs | (4,892) | (1,782) | (516) | (454) | — | | (7,644) |
| Recoveries | 1,020 | 409 | 171 | 107 | — | | 1,707 |
| Provision | 2,779 | 2,540 | 1,381 | 331 | 47 | | 7,078 |
| Balance, end of period | \$55,248 | \$20,754 | \$7,688 | \$1,022 | \$47 | | \$84,759 |

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(in thousands)

| | Nine months ended September 30, 2013 | | | | | |
|------------------------------|--------------------------------------|------------|-------------|----------|-------------|-----------|
| | Commercial | | | Consumer | | Total |
| | Real Estate | Commercial | Residential | & Other | Unallocated | |
| Balance, beginning of period | \$54,909 | \$22,925 | \$6,925 | \$632 | \$— | \$85,391 |
| Charge-offs | (6,595) | (9,541) | (2,813) | (697) | — | (19,646) |
| Recoveries | 2,830 | 2,554 | 221 | 355 | — | 5,960 |
| Provision | 2,449 | 7,342 | 2,709 | 489 | — | 12,989 |
| Balance, end of period | \$53,593 | \$23,280 | \$7,042 | \$779 | \$— | \$84,694 |

| | Nine months ended September 30, 2012 | | | | | |
|------------------------------|--------------------------------------|------------|-------------|----------|-------------|-----------|
| | Commercial | | | Consumer | | Total |
| | Real Estate | Commercial | Residential | & Other | Unallocated | |
| Balance, beginning of period | \$59,574 | \$20,485 | \$7,625 | \$867 | \$4,417 | \$92,968 |
| Charge-offs | (18,007) | (8,741) | (4,030) | (1,159) | — | (31,937) |
| Recoveries | 2,327 | 3,856 | 338 | 324 | — | 6,845 |
| Provision | 11,354 | 5,154 | 3,755 | 990 | (4,370) | 16,883 |
| Balance, end of period | \$55,248 | \$20,754 | \$7,688 | \$1,022 | \$47 | \$84,759 |

The following table presents the allowance and recorded investment in non-covered loans and leases by portfolio segment and balances individually or collectively evaluated for impairment as of September 30, 2013 and 2012, respectively:

(in thousands)

| | September 30, 2013 | | | | | |
|---|--------------------|-------------|-------------|----------|-------------|-------------|
| | Commercial | | | Consumer | | Total |
| | Real Estate | Commercial | Residential | & Other | Unallocated | |
| Allowance for non-covered loans and leases: | | | | | | |
| Collectively evaluated for impairment | \$52,199 | \$23,270 | \$7,042 | \$779 | \$— | \$83,290 |
| Individually evaluated for impairment | 1,394 | 10 | — | — | — | 1,404 |
| Total | \$53,593 | \$23,280 | \$7,042 | \$779 | \$— | \$84,694 |
| Non-covered loans and leases: | | | | | | |
| Collectively evaluated for impairment | \$4,235,408 | \$2,039,566 | \$806,402 | \$43,621 | | \$7,124,997 |
| Individually evaluated for impairment | 97,382 | 12,736 | — | — | | 110,118 |
| Total | \$4,332,790 | \$2,052,302 | \$806,402 | \$43,621 | | \$7,235,115 |

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(in thousands)

| | September 30, 2012 | | | | Unallocated | Total |
|---|---------------------------|-------------|-------------|---------------------|-------------|-------------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | | |
| Allowance for non-covered loans and leases: | | | | | | |
| Collectively evaluated for impairment | \$54,115 | \$20,754 | \$7,683 | \$1,022 | \$47 | \$83,621 |
| Individually evaluated for impairment | 1,133 | — | 5 | — | — | 1,138 |
| Total | \$55,248 | \$20,754 | \$7,688 | \$1,022 | \$47 | \$84,759 |
| Non-covered loans and leases: | | | | | | |
| Collectively evaluated for impairment | \$3,816,106 | \$1,602,735 | \$654,956 | \$37,874 | | \$6,111,671 |
| Individually evaluated for impairment | 129,690 | 18,371 | 793 | — | | 148,854 |
| Total | \$3,945,796 | \$1,621,106 | \$655,749 | \$37,874 | | \$6,260,525 |

The gross non-covered loan and lease balance excludes deferred loans fees of \$6.2 million at September 30, 2013 and \$12.1 million at September 30, 2012.

Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the reserve for unfunded commitments (“RUC”) and unfunded commitments for the three and nine months ended September 30, 2013 and 2012, respectively:

(in thousands)

| | Three months ended September 30, 2013 | | | | Total |
|------------------------------|---------------------------------------|------------|-------------|---------------------|---------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | |
| Balance, beginning of period | \$196 | \$855 | \$200 | \$76 | \$1,327 |
| Net change to other expense | 3 | 11 | 24 | 10 | 48 |
| Balance, end of period | \$199 | \$866 | \$224 | \$86 | \$1,375 |
| | Three months ended September 30, 2012 | | | | Total |
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | |
| Balance, beginning of period | \$107 | \$790 | \$162 | \$67 | \$1,126 |
| Net change to other expense | 18 | 1,607 | 2 | 4 | 1,631 |
| Balance, end of period | \$125 | \$2,397 | \$164 | \$71 | \$2,757 |

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(in thousands)

| | Nine months ended September 30, 2013 | | | | |
|------------------------------|--------------------------------------|------------|-------------|------------------|---------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | \$172 | \$807 | \$173 | \$71 | \$1,223 |
| Net change to other expense | 27 | 59 | 51 | 15 | 152 |
| Balance, end of period | \$199 | \$866 | \$224 | \$86 | \$1,375 |

| | Nine months ended September 30, 2012 | | | | |
|------------------------------|--------------------------------------|------------|-------------|------------------|---------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | \$59 | \$633 | \$185 | \$63 | \$940 |
| Net change to other expense | 66 | 1,764 | (21) | 8 | 1,817 |
| Balance, end of period | \$125 | \$2,397 | \$164 | \$71 | \$2,757 |

(in thousands)

| | Commercial | | | Consumer | Total |
|----------------------------|-------------|-------------|-------------|----------|-------------|
| | Real Estate | Commercial | Residential | & Other | |
| Unfunded loan commitments: | | | | | |
| September 30, 2013 | \$222,879 | \$1,011,643 | \$322,612 | \$53,601 | \$1,610,735 |
| September 30, 2012 | \$139,479 | \$900,875 | \$255,499 | \$55,312 | \$1,351,165 |

Non-covered loans sold

In the course of managing the loan portfolio, at certain times, management may decide to sell loans. The following table summarizes loans sold by loan portfolio during the three and nine months ended September 30, 2013 and 2012, respectively:

(In thousands)

| | Three months ended | | Nine months ended | |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Commercial real estate | | | | |
| Term & multifamily | \$4,927 | \$6,410 | \$7,777 | \$11,350 |
| Construction & development | — | — | 3,515 | — |
| Residential development | — | 12 | 363 | 12 |
| Commercial | | | | |
| Term | 1,098 | — | 47,635 | — |
| LOC & other | — | 1,110 | — | 1,942 |
| Residential | | | | |
| Mortgage | 1,008 | — | 1,008 | 192 |
| Home equity loans & lines | — | — | — | — |
| Consumer & other | — | — | — | — |
| Total | \$7,033 | \$7,532 | \$60,298 | \$13,496 |

Asset Quality and Non-Performing Loans

We manage asset quality and control credit risk through diversification of the non-covered loan and lease portfolio and the application of policies designed to promote sound underwriting and loan and lease monitoring practices. The

Bank's Credit Quality Group is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent

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application of these policies and procedures across the Bank. Reviews of non-performing, past due non-covered loans and leases and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers, the value of the applicable collateral, loan and lease loss experience, estimated loan and lease losses, growth in the loan and lease portfolio, prevailing economic conditions and other factors.

A loan is considered impaired when, based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when non-covered loans are identified as impaired, they are moved to the Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we will use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every 12 months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac's or the Bank's Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services Group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Bank's ALLL Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

Loans and leases are classified as non-accrual when collection of principal or interest is doubtful—generally if they are past due as to maturity or payment of principal or interest by 90 days or more—unless such loans are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for non-accrual status. Loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain.

Loans are reported as restructured when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original

loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

Loans and leases are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms. All loans determined to be impaired are individually assessed for impairment except for impaired homogeneous loans which are collectively evaluated for impairment in accordance with FASB ASC 450, Contingencies ("ASC 450"). The specific factors considered in determining that a loan is impaired include borrower financial capacity, current economic, business and market conditions, collection efforts, collateral position and other factors deemed relevant. Generally, impaired loans are placed on non-accrual status and all cash receipts are applied to the principal balance. Continuation of accrual status and recognition of interest income is generally limited to performing restructured loans.

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The Bank has written down impaired, non-accrual loans as of September 30, 2013 to their estimated net realizable value, and expects resolution with no additional material loss, absent further decline in market prices.

Non-Covered Non-Accrual Loans and Loans Past Due

The following table summarizes our non-covered non-accrual loans and leases and loans and leases past due by loan and lease class as of September 30, 2013 and December 31, 2012:

(in thousands)

| | September 30, 2013 | | | Total Past Due | Nonaccrual | Current & Other (1) | Total Non- covered Loans and Leases |
|-------------------------------|---------------------------|---------------------------|---|-------------------|------------|------------------------|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days and Accruing | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$6,349 | \$3,389 | \$1,402 | \$11,140 | \$18,529 | \$3,976,314 | \$4,005,983 |
| Construction & development | — | — | — | — | 5,130 | 242,679 | 247,809 |
| Residential development | 768 | 605 | — | 1,373 | 2,871 | 74,754 | 78,998 |
| Commercial | | | | | | | |
| Term | 2,760 | 238 | — | 2,998 | 10,534 | 755,641 | 769,173 |
| LOC & other | 2,110 | 3,330 | 470 | 5,910 | 2,741 | 1,274,478 | 1,283,129 |
| Residential | | | | | | | |
| Mortgage | 562 | 898 | 2,690 | 4,150 | — | 546,050 | 550,200 |
| Home equity loans & lines | 492 | 453 | 346 | 1,291 | — | 254,911 | 256,202 |
| Consumer & other | 53 | 53 | 28 | 134 | — | 43,487 | 43,621 |
| Total | \$13,094 | \$8,966 | \$4,936 | \$26,996 | \$39,805 | \$7,168,314 | \$7,235,115 |
| Deferred loan fees, net | | | | | | | (6,211) |
| Total | | | | | | | \$7,228,904 |

(1) Other includes non-covered loans accounted for under ASC 310-30.

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(in thousands)

| | December 31, 2012 | | | Total Past Due | Nonaccrual | Current & Other (1) | Total Non- covered Loans and Leases |
|-------------------------------|---------------------------|---------------------------|---|-------------------|------------|------------------------|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days and Accruing | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$7,747 | \$2,784 | \$— | \$10,531 | \$43,290 | \$3,884,622 | \$3,938,443 |
| Construction & development | 283 | — | — | 283 | 4,177 | 197,658 | 202,118 |
| Residential development | 479 | — | — | 479 | 5,132 | 51,598 | 57,209 |
| Commercial | | | | | | | |
| Term | 3,009 | 746 | 81 | 3,836 | 7,040 | 786,926 | 797,802 |
| LOC & other | 1,647 | 1,503 | — | 3,150 | 7,027 | 913,151 | 923,328 |
| Residential | | | | | | | |
| Mortgage | 2,906 | 602 | 3,303 | 6,811 | — | 469,768 | 476,579 |
| Home equity loans & lines | 1,398 | 214 | 758 | 2,370 | 49 | 258,378 | 260,797 |
| Consumer & other | 282 | 191 | 90 | 563 | 21 | 36,743 | 37,327 |
| Total | \$17,751 | \$6,040 | \$4,232 | \$28,023 | \$66,736 | \$6,598,844 | \$6,693,603 |
| Deferred loan fees, net | | | | | | | (12,523) |
| Total | | | | | | | \$6,681,080 |

(1) Other includes non-covered loans accounted for under ASC 310-30.

Non-Covered Impaired Loans

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The following table summarizes our non-covered impaired loans by loan class as of September 30, 2013 and December 31, 2012:

(in thousands)

| | September 30, 2013 | | |
|-------------------------------------|--------------------------------|------------------------|----------------------|
| | Unpaid Principal Balance | Recorded Investment | Related Allowance |
| With no related allowance recorded: | | | |
| Commercial real estate | | | |
| Term & multifamily | \$30,320 | \$27,685 | \$— |
| Construction & development | 14,710 | 13,690 | — |
| Residential development | 10,876 | 6,046 | — |
| Commercial | | | |
| Term | 16,262 | 10,535 | — |
| LOC & other | 1,193 | 636 | — |
| Residential | | | |
| Mortgage | — | — | — |
| Home equity loans & lines | 159 | — | — |
| Consumer & other | — | — | — |
| With an allowance recorded: | | | |
| Commercial real estate | | | |
| Term & multifamily | 36,692 | 36,692 | 1,278 |
| Construction & development | 1,091 | 1,091 | 11 |
| Residential development | 12,178 | 12,178 | 105 |
| Commercial | | | |
| Term | 300 | 300 | 6 |
| LOC & other | 1,265 | 1,265 | 4 |
| Residential | | | |
| Mortgage | — | — | — |
| Home equity loans & lines | — | — | — |
| Consumer & other | — | — | — |
| Total: | | | |
| Commercial real estate | 105,867 | 97,382 | 1,394 |
| Commercial | 19,020 | 12,736 | 10 |
| Residential | 159 | — | — |
| Consumer & other | — | — | — |
| Total | \$125,046 | \$110,118 | \$1,404 |

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(in thousands)

| | December 31, 2012 | | |
|-------------------------------------|--------------------------------|------------------------|----------------------|
| | Unpaid Principal Balance | Recorded Investment | Related Allowance |
| With no related allowance recorded: | | | |
| Commercial real estate | | | |
| Term & multifamily | \$49,953 | \$43,406 | \$— |
| Construction & development | 18,526 | 15,638 | — |
| Residential development | 9,293 | 6,091 | — |
| Commercial | | | |
| Term | 13,729 | 10,532 | — |
| LOC & other | 10,778 | 7,846 | — |
| Residential | | | |
| Mortgage | — | — | — |
| Home equity loans & lines | 50 | 49 | — |
| Consumer & other | 21 | 21 | — |
| With an allowance recorded: | | | |
| Commercial real estate | | | |
| Term & multifamily | 41,016 | 41,016 | 1,198 |
| Construction & development | 1,091 | 1,091 | 14 |
| Residential development | 16,593 | 16,593 | 184 |
| Commercial | | | |
| Term | — | — | — |
| LOC & other | — | — | — |
| Residential | | | |
| Mortgage | — | — | — |
| Home equity loans & lines | 126 | 126 | 5 |
| Consumer & other | — | — | — |
| Total: | | | |
| Commercial real estate | 136,472 | 123,835 | 1,396 |
| Commercial | 24,507 | 18,378 | — |
| Residential | 176 | 175 | 5 |
| Consumer & other | 21 | 21 | — |
| Total | \$161,176 | \$142,409 | \$1,401 |

Loans with no related allowance reported generally represent non-accrual loans. The Bank recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans as of September 30, 2013 have already been written-down to their estimated net realizable value, based on net realizable value, and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

At September 30, 2013 and December 31, 2012, impaired loans of \$69.5 million and \$70.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan

balance, the loan is current on payments,

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and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Bank had no obligation to lend additional funds on the restructured loans as of September 30, 2013.

The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class for the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| | Three months ended September 30, 2013 | | Three months ended September 30, 2012 | |
|-------------------------------------|--|----------------------------------|--|----------------------------------|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| Commercial real estate | | | | |
| Term & multifamily | \$35,289 | \$— | \$45,832 | \$— |
| Construction & development | 11,155 | — | 16,990 | — |
| Residential development | 5,576 | — | 14,748 | — |
| Commercial | | | | |
| Term | 11,297 | — | 12,037 | — |
| LOC & other | 1,000 | — | 6,731 | — |
| Residential | | | | |
| Mortgage | — | — | — | — |
| Home equity loans & lines | — | — | 729 | — |
| Consumer & other | — | — | — | — |
| With an allowance recorded: | | | | |
| Commercial real estate | | | | |
| Term & multifamily | 36,261 | 438 | 28,918 | 352 |
| Construction & development | 2,452 | 122 | 2,712 | 169 |
| Residential development | 13,866 | 165 | 15,575 | 199 |
| Commercial | | | | |
| Term | 325 | 4 | 182 | 44 |
| LOC & other | 1,268 | 13 | — | — |
| Residential | | | | |
| Mortgage | 238 | — | — | — |
| Home equity loans & lines | — | — | 127 | 2 |
| Consumer & other | — | — | — | — |
| Total: | | | | |
| Commercial real estate | 104,599 | 725 | 124,775 | 720 |
| Commercial | 13,890 | 17 | 18,950 | 44 |
| Residential | 238 | — | 856 | 2 |
| Consumer & other | — | — | — | — |
| Total | \$118,727 | \$742 | \$144,581 | \$766 |

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| | Nine months ended September 30, 2013 | | Nine months ended September 30, 2012 | |
|-------------------------------------|---|----------------------------------|---|----------------------------------|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | |
| Commercial real estate | | | | |
| Term & multifamily | \$37,484 | \$— | \$45,462 | \$— |
| Construction & development | 12,902 | — | 18,464 | — |
| Residential development | 8,046 | — | 17,874 | — |
| Commercial | | | | |
| Term | 11,546 | — | 12,325 | — |
| LOC & other | 3,239 | — | 7,975 | — |
| Residential | | | | |
| Mortgage | — | — | — | — |
| Home equity loans & lines | 88 | — | 364 | — |
| Consumer & other | 1 | — | — | — |
| With an allowance recorded: | | | | |
| Commercial real estate | | | | |
| Term & multifamily | 36,995 | 1,301 | 25,916 | 785 |
| Construction & development | 2,099 | 363 | 2,727 | 513 |
| Residential development | 15,467 | 474 | 18,873 | 600 |
| Commercial | | | | |
| Term | 1,142 | 13 | 554 | 140 |
| LOC & other | 1,150 | 39 | 994 | — |
| Residential | | | | |
| Mortgage | 191 | — | — | — |
| Home equity loans & lines | 32 | — | 128 | 5 |
| Consumer & other | — | — | — | — |
| Total: | | | | |
| Commercial real estate | 112,993 | 2,138 | 129,316 | 1,898 |
| Commercial | 17,077 | 52 | 21,848 | 140 |
| Residential | 311 | — | 492 | 5 |
| Consumer & other | 1 | — | — | — |
| Total | \$130,382 | \$2,190 | \$151,656 | \$2,043 |

The impaired loans for which these interest income amounts were recognized primarily relate to accruing restructured loans.

Non-Covered Credit Quality Indicators

As previously noted, the Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Bank differentiates its lending portfolios into homogeneous loans and leases and non-homogeneous loans and leases. The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans and leases:

Minimal Risk—A minimal risk loan or lease, risk rated 1, is to a borrower of the highest quality. The borrower has an unquestioned ability to produce consistent profits and service all obligations and can absorb severe market disturbances with little or no difficulty.

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Low Risk—A low risk loan or lease, risk rated 2, is similar in characteristics to a minimal risk loan. Margins may be smaller or protective elements may be subject to greater fluctuation. The borrower will have a strong demonstrated ability to produce profits, provide ample debt service coverage and to absorb market disturbances.

Modest Risk—A modest risk loan or lease, risk rated 3, is a desirable loan or lease with excellent sources of repayment and no currently identifiable risk associated with collection. The borrower exhibits a very strong capacity to repay the credit in accordance with the repayment agreement. The borrower may be susceptible to economic cycles, but will have reserves to weather these cycles.

Average Risk—An average risk loan or lease, risk rated 4, is an attractive loan or lease with sound sources of repayment and no material collection or repayment weakness evident. The borrower has an acceptable capacity to pay in accordance with the agreement. The borrower is susceptible to economic cycles and more efficient competition, but should have modest reserves sufficient to survive all but the most severe downturns or major setbacks.

Acceptable Risk—An acceptable risk loan or lease, risk rated 5, is a loan or lease with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement. The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

Watch—A watch loan or lease, risk rated 6, is still pass-rated, but represents the lowest level of acceptable risk due to an emerging risk element or declining performance trend. Watch ratings are expected to be temporary, with issues resolved or manifested to the extent that a higher or lower rating would be appropriate. The borrower should have a plausible plan, with reasonable certainty of success, to correct the problems in a short period of time. Borrowers rated watch are characterized by elements of uncertainty, such as:

Borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated performance.

• Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.

• The borrower may have experienced a minor, unexpected covenant violation.

• Companies who may be experiencing tight working capital or have a cash cushion deficiency.

A loan or lease may also be a watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if they face industry issues that, when combined with performance factors create uncertainty in their future ability to perform.

• Delinquent payments, increasing and material overdraft activity, request for bulge and/or out-of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.

• Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a watch or worse risk rating.

Special Mention—A special mention loan or lease, risk rated 7, has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institutions credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans and leases in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a substandard classification. A special mention loan or lease has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date. Such weaknesses include:

• Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.

Loans or leases with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.

Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating.

This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.

Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

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Substandard—A substandard asset, risk rated 8, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans and leases are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan or lease normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard. The following are examples of well-defined weaknesses:

- Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.
- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.
- Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.
- Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.
- Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Bank's primary source of repayment (unless this was the original source of repayment). If the collateral is under the Bank's control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be special mention or watch.
- The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.
- There is material, uncorrectable faulty documentation or materially suspect financial information.

Doubtful—Loans or leases classified as doubtful, risk rated 9, have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a doubtful rating will be temporary, while the Bank is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged-off. The remaining balance, properly margined, may then be upgraded to substandard, however must remain on non-accrual.

Loss—Loans or leases classified as loss, risk rated 10, are considered un-collectible and of such little value that the continuance as an active Bank asset is not warranted. This rating does not mean that the loan or lease has no recovery or salvage value, but rather that the loan or lease should be charged-off now, even though partial or full recovery may be possible in the future.

Impaired—Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as non-accrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

Homogeneous loans and leases are not risk rated until they are greater than 30 days past due, and risk rating is based primarily on the past due status of the loan or lease. The risk rating categories can be generally described by the following groupings for commercial and commercial real estate homogeneous loans and leases:

Special Mention—A homogeneous special mention loan or lease, risk rated 7, is 30-59 days past due from the required payment date at month-end.

Substandard—A homogeneous substandard loan or lease, risk rated 8, is 60-89 days past due from the required payment date at month-end.

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Doubtful—A homogeneous doubtful loan or lease, risk rated 9, is 90-179 days past due from the required payment date at month-end.

Loss—A homogeneous loss loan or lease, risk rated 10, is 180 days and more past due from the required payment date. These loans are generally charged-off in the month in which the 180 day time period elapses.

The risk rating categories can be generally described by the following groupings for residential and consumer and other homogeneous loans:

Special Mention—A homogeneous retail special mention loan, risk rated 7, is 30-89 days past due from the required payment date at month-end.

Substandard—A homogeneous retail substandard loan, risk rated 8, is an open-end loan 90-180 days past due from the required payment date at month-end or a closed-end loan 90-120 days past due from the required payment date at month-end.

Loss—A homogeneous retail loss loan, risk rated 10, is a closed-end loan that becomes past due 120 cumulative days or an open-end retail loan that becomes past due 180 cumulative days from the contractual due date. These loans are generally charged-off in the month in which the 120 or 180 day period elapses.

The following table summarizes our internal risk rating by loan and lease class for the non-covered loan and lease portfolio as of September 30, 2013 and December 31, 2012:

(in thousands)

| | September 30, 2013 | | | | | | |
|----------------------------|--------------------|--------------------|-------------|----------|---------|-----------|-------------|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired | Total |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$3,646,254 | \$147,094 | \$148,258 | \$— | \$— | \$64,377 | \$4,005,983 |
| Construction & development | 227,008 | 1,894 | 4,126 | — | — | 14,781 | 247,809 |
| Residential development | 54,480 | 2,896 | 3,398 | — | — | 18,224 | 78,998 |
| Commercial | | | | | | | |
| Term | 722,140 | 15,210 | 20,988 | — | — | 10,835 | 769,173 |
| LOC & other | 1,227,521 | 35,349 | 15,830 | 2,364 | 164 | 1,901 | 1,283,129 |
| Residential | | | | | | | |
| Mortgage | 546,048 | 1,466 | 570 | — | 2,116 | — | 550,200 |
| Home equity loans & lines | 254,912 | 945 | 15 | — | 330 | — | 256,202 |
| Consumer & other | 43,487 | 106 | 15 | — | 13 | — | 43,621 |
| Total | \$6,721,850 | \$204,960 | \$193,200 | \$2,364 | \$2,623 | \$110,118 | \$7,235,115 |
| Deferred loan fees, net | | | | | | | (6,211) |
| Total | | | | | | | \$7,228,904 |

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(in thousands)

| | December 31, 2012 | | | | | | |
|----------------------------|-------------------|--------------------|-------------|----------|---------|-----------|-------------|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired | Total |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$3,515,753 | \$203,643 | \$134,625 | \$— | \$— | \$84,422 | \$3,938,443 |
| Construction & development | 166,660 | 12,666 | 6,063 | — | — | 16,729 | 202,118 |
| Residential development | 25,082 | 4,379 | 5,064 | — | — | 22,684 | 57,209 |
| Commercial | | | | | | | |
| Term | 718,122 | 22,255 | 46,893 | — | — | 10,532 | 797,802 |
| LOC & other | 880,385 | 19,521 | 15,576 | — | — | 7,846 | 923,328 |
| Residential | | | | | | | |
| Mortgage | 469,325 | 3,507 | 1,120 | — | 2,627 | — | 476,579 |
| Home equity loans & lines | 258,252 | 1,612 | — | — | 758 | 175 | 260,797 |
| Consumer & other | 36,797 | 419 | 57 | — | 33 | 21 | 37,327 |
| Total | \$6,070,376 | \$268,002 | \$209,398 | \$— | \$3,418 | \$142,409 | \$6,693,603 |
| Deferred loan fees, net | | | | | | | (12,523) |
| Total | | | | | | | \$6,681,080 |

The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 5.9%, 2.8%, and 91.3%, respectively, as of September 30, 2013. The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 9.0%, 1.7%, and 89.3%, respectively, as of December 31, 2012.

Troubled Debt Restructurings

At September 30, 2013 and December 31, 2012, impaired loans of \$69.5 million and \$70.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. Impaired restructured loans carry a specific allowance and the allowance on impaired restructured loans is calculated consistently across the portfolios.

There were no available commitments for troubled debt restructurings outstanding as of September 30, 2013 and none as of December 31, 2012.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of September 30, 2013 and December 31, 2012:

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(in thousands)

| | September 30, 2013 | | |
|----------------------------|--------------------|--------------------|---------------------|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate | | | |
| Term & multifamily | \$42,753 | \$2,907 | \$45,660 |
| Construction & development | 9,651 | — | 9,651 |
| Residential development | 15,353 | 2,498 | 17,851 |
| Commercial | | | |
| Term | — | 3,849 | 3,849 |
| LOC & other | 1,265 | — | 1,265 |
| Residential | | | |
| Mortgage | 475 | — | 475 |
| Home equity loans & lines | — | — | — |
| Consumer & other | — | — | — |
| Total | \$69,497 | \$9,254 | \$78,751 |

(in thousands)

| | December 31, 2012 | | |
|----------------------------|-------------------|--------------------|---------------------|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate | | | |
| Term & multifamily | \$39,613 | \$16,605 | \$56,218 |
| Construction & development | 12,552 | 3,516 | 16,068 |
| Residential development | 17,141 | 4,921 | 22,062 |
| Commercial | | | |
| Term | 350 | 4,641 | 4,991 |
| LOC & other | 820 | 1,493 | 2,313 |
| Residential | | | |
| Mortgage | — | — | — |
| Home equity loans & lines | 126 | — | 126 |
| Consumer & other | — | — | — |
| Total | \$70,602 | \$31,176 | \$101,778 |

The Bank's policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appears relatively certain. The Bank's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

The types of modifications offered can generally be described in the following categories:

Rate Modification—A modification in which the interest rate is modified.

Term Modification —A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification—A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification—A modification in which the payment amount is changed, other than an interest only modification described above.

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Combination Modification—Any other type of modification, including the use of multiple types of modifications.

The following tables present newly non-covered restructured loans that occurred during the three and nine months ended September 30, 2013 and 2012, respectively:

(in thousands)

| | Three months ended September 30, 2013 | | | | | |
|-------------------------------|---------------------------------------|-----------------------|--------------------------------|--------------------------|------------------------------|------------------------|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate | | | | | | |
| Term & multifamily | \$— | \$— | \$— | \$— | \$— | \$— |
| Construction & development | — | — | — | — | — | — |
| Residential development | — | — | — | — | — | — |
| Commercial | | | | | | |
| Term | — | — | — | — | 3,588 | 3,588 |
| LOC & other | — | — | — | — | — | — |
| Residential | | | | | | |
| Mortgage | — | — | — | — | — | — |
| Home equity loans & lines | — | — | — | — | — | — |
| Consumer & other | — | — | — | — | — | — |
| Total | \$— | \$— | \$— | \$— | \$3,588 | \$3,588 |

| | Three months ended September 30, 2012 | | | | | |
|-------------------------------|---------------------------------------|-----------------------|--------------------------------|--------------------------|------------------------------|------------------------|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate | | | | | | |
| Term & multifamily | \$14,920 | \$— | \$— | \$— | \$2,554 | \$17,474 |
| Construction & development | — | — | — | — | — | — |
| Residential development | — | — | — | — | — | — |
| Commercial | | | | | | |
| Term | — | — | — | 820 | — | 820 |
| LOC & other | — | — | — | — | — | — |
| Residential | | | | | | |
| Mortgage | — | — | — | — | — | — |
| Home equity loans & lines | — | — | — | — | — | — |
| Consumer & other | — | — | — | — | — | — |
| Total | \$14,920 | \$— | \$— | \$820 | \$2,554 | \$18,294 |

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(in thousands)

| | Nine months ended September 30, 2013 | | | | | |
|-------------------------------|--------------------------------------|-----------------------|--------------------------------|--------------------------|------------------------------|------------------------|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate | | | | | | |
| Term & multifamily | \$— | \$— | \$4,291 | \$— | \$— | \$4,291 |
| Construction & development | — | — | — | — | — | — |
| Residential development | — | — | — | — | — | — |
| Commercial | | | | | | |
| Term | — | — | — | — | 3,588 | 3,588 |
| LOC & other | — | — | — | — | 452 | 452 |
| Residential | | | | | | |
| Mortgage | — | — | — | — | 478 | 478 |
| Home equity loans & lines | — | — | — | — | — | — |
| Consumer & other | — | — | — | — | — | — |
| Total | \$— | \$— | \$4,291 | \$— | \$4,518 | \$8,809 |
| | Nine months ended September 30, 2012 | | | | | |
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate | | | | | | |
| Term & multifamily | \$14,920 | \$— | \$— | \$— | \$3,357 | \$18,277 |
| Construction & development | — | — | — | — | — | — |
| Residential development | — | — | — | — | — | — |
| Commercial | | | | | | |
| Term | — | — | — | 820 | — | 820 |
| LOC & other | — | — | — | — | — | — |
| Residential | | | | | | |
| Mortgage | — | — | — | — | — | — |
| Home equity loans & lines | — | — | — | — | — | — |
| Consumer & other | — | — | — | — | — | — |
| Total | \$14,920 | \$— | \$— | \$820 | \$3,357 | \$19,097 |

For the periods presented in the tables above, the outstanding recorded investment was the same pre and post modification.

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The following tables represent financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three and nine months ended September 30, 2013 and 2012, respectively:

(in thousands)

| | Three months ended | | Nine months ended | |
|----------------------------|-----------------------|------|-----------------------|-------|
| | September 30, 2013 | 2012 | September 30, 2013 | 2012 |
| Commercial real estate | | | | |
| Term & multifamily | \$— | \$— | \$— | \$217 |
| Construction & development | — | — | — | — |
| Residential development | — | — | — | 633 |
| Commercial | | | | |
| Term | — | — | — | — |
| LOC & other | — | — | — | 26 |
| Residential | | | | |
| Mortgage | — | — | — | — |
| Home equity loans & lines | — | — | — | — |
| Consumer & other | — | — | — | — |
| Total | \$— | \$— | \$— | \$876 |

Note 6 – Covered Assets and Indemnification Asset

Covered Loans

Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as “covered loans” and reported separately in our statements of financial condition. Covered loans are reported exclusive of the cash flow reimbursements expected from the FDIC.

Acquired loans are valued as of acquisition date in accordance with ASC 805. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). Because of the significant fair value discounts associated with the acquired portfolios, the concentration of real estate related loans (to finance or secured by real estate collateral) and the decline in real estate values in the regions serviced, and after considering the underwriting standards of the acquired originating bank, the Company elected to account for all acquired loans under ASC 310-30. Under ASC 805 and ASC 310-30, loans are to be recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. We have aggregated the acquired loans into various loan pools based on multiple layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing.

The covered loans acquired are, and will continue to be, subject to the Company’s internal and external credit review and monitoring. To the extent there is experienced or projected credit deterioration on the acquired loan pools subsequent to amounts estimated at the previous remeasurement date, this deterioration will be measured, and a provision for credit losses will be charged to earnings. Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to acquisition date in a manner consistent with the allowance for non-covered loan and lease losses. These provisions will be mostly offset by an increase to the FDIC indemnification asset through

the life of the loss sharing agreement, which is recognized in non-interest income.

Covered Loans

The following table presents the major types of covered loans as of September 30, 2013 and December 31, 2012:

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(in thousands)

| | September 30, 2013 | | | Total |
|-----------------------------|--------------------|-----------|-----------------|-----------|
| | Evergreen | Rainier | Nevada Security | |
| Commercial real estate | | | | |
| Term & multifamily | \$58,522 | \$168,193 | \$88,714 | \$315,429 |
| Construction & development | 3,770 | — | 4,161 | 7,931 |
| Residential development | 3,105 | — | 5,431 | 8,536 |
| Commercial | | | | |
| Term | 5,826 | 1,074 | 9,923 | 16,823 |
| LOC & other | 3,433 | 5,937 | 2,148 | 11,518 |
| Residential | | | | |
| Mortgage | 3,126 | 18,392 | 1,786 | 23,304 |
| Home equity loans & lines | 3,257 | 15,404 | 2,036 | 20,697 |
| Consumer & other | 1,023 | 3,710 | 30 | 4,763 |
| Total | \$82,062 | \$212,710 | \$114,229 | \$409,001 |
| Allowance for covered loans | | | | (11,918) |
| Total | | | | \$397,083 |
| | | | | |
| | December 31, 2012 | | | Total |
| | Evergreen | Rainier | Nevada Security | |
| Commercial real estate | | | | |
| Term & multifamily | \$72,888 | \$199,685 | \$105,436 | \$378,009 |
| Construction & development | 4,941 | 637 | 6,133 | 11,711 |
| Residential development | 3,840 | — | 5,954 | 9,794 |
| Commercial | | | | |
| Term | 9,961 | 2,230 | 11,333 | 23,524 |
| LOC & other | 4,984 | 7,081 | 2,932 | 14,997 |
| Residential | | | | |
| Mortgage | 3,948 | 22,059 | 1,818 | 27,825 |
| Home equity loans & lines | 3,478 | 17,178 | 2,786 | 23,442 |
| Consumer & other | 1,855 | 4,143 | 53 | 6,051 |
| Total | \$105,895 | \$253,013 | \$136,445 | \$495,353 |
| Allowance for covered loans | | | | (18,275) |
| Total | | | | \$477,078 |

The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at September 30, 2013 was \$105.6 million, \$247.3 million and \$155.8 million, for Evergreen, Rainier, and Nevada Security, respectively, as compared to \$137.7 million, \$297.0 million and \$198.4 million, for Evergreen, Rainier, and Nevada Security, respectively, at December 31, 2012.

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference.

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the “accretable yield”. The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of

the loans.

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The following table presents the changes in the accretable yield for the three and nine months ended September 30, 2013 and 2012 for each respective acquired loan portfolio:

(in thousands)

| | Three months ended September 30, 2013 | | | |
|--|---------------------------------------|-----------|-----------------|------------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$27,162 | \$85,823 | \$41,818 | \$154,803 |
| Accretion to interest income | (2,816) |) (5,221) |) (3,420) |) (11,457) |
| Disposals | (1,148) |) (2,205) |) (373) |) (3,726) |
| Reclassifications (to)/from nonaccretable difference | (325) |) 3,664 | (643) |) 2,696 |
| Balance, end of period | \$22,873 | \$82,061 | \$37,382 | \$142,316 |

| | Three months ended September 30, 2012 | | | |
|---|---------------------------------------|-----------|-----------------|------------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$48,064 | \$123,501 | \$54,623 | \$226,188 |
| Accretion to interest income | (6,139) |) (8,361) |) (5,316) |) (19,816) |
| Disposals | (1,989) |) (5,677) |) (1,650) |) (9,316) |
| Reclassifications from nonaccretable difference | 3,261 | 3,336 | 3,094 | 9,691 |
| Balance, end of period | \$43,197 | \$112,799 | \$50,751 | \$206,747 |

(in thousands)

| | Nine months ended September 30, 2013 | | | |
|---|--------------------------------------|------------|-----------------|------------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$34,567 | \$102,468 | \$46,353 | \$183,388 |
| Accretion to interest income | (9,879) |) (18,290) |) (11,872) |) (40,041) |
| Disposals | (2,510) |) (5,529) |) (3,140) |) (11,179) |
| Reclassifications from nonaccretable difference | 695 | 3,412 | 6,041 | 10,148 |
| Balance, end of period | 22,873 | \$82,061 | \$37,382 | \$142,316 |

| | Nine months ended September 30, 2012 | | | |
|---|--------------------------------------|------------|-----------------|------------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$56,479 | \$120,333 | \$61,021 | \$237,833 |
| Accretion to interest income | (14,918) |) (23,216) |) (14,924) |) (53,058) |
| Disposals | (5,671) |) (14,363) |) (3,069) |) (23,103) |
| Reclassifications from nonaccretable difference | 7,307 | 30,045 | 7,723 | 45,075 |
| Balance, end of period | \$43,197 | \$112,799 | \$50,751 | \$206,747 |

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Allowance for Covered Loan Losses

The following table summarizes activity related to the allowance for covered loan losses by covered loan portfolio segment for the three and nine months ended September 30, 2013 and 2012, respectively:

(in thousands)

| | Three months ended September 30, 2013 | | | | |
|------------------------------|---------------------------------------|------------|-------------|---------------------|----------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | \$8,871 | \$4,512 | \$808 | \$176 | \$14,367 |
| Charge-offs | (553) | (406) | (48) | (88) | (1,095) |
| Recoveries | 182 | 156 | 59 | 153 | 550 |
| Recapture of provision | (1,466) | (367) | (16) | (55) | (1,904) |
| Balance, end of period | \$7,034 | \$3,895 | \$803 | \$186 | \$11,918 |

| | Three months ended September 30, 2012 | | | | |
|------------------------------|---------------------------------------|------------|-------------|---------------------|----------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | \$7,461 | \$4,547 | \$664 | \$305 | \$12,977 |
| Charge-offs | (480) | (450) | (73) | (45) | (1,048) |
| Recoveries | 371 | 215 | 68 | 22 | 676 |
| Provision (recapture) | 1,884 | 990 | 79 | (26) | 2,927 |
| Balance, end of period | \$9,236 | \$5,302 | \$738 | \$256 | \$15,532 |

(in thousands)

| | Nine months ended September 30, 2013 | | | | |
|------------------------------|--------------------------------------|------------|-------------|---------------------|----------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | \$12,129 | \$4,980 | \$804 | \$362 | \$18,275 |
| Charge-offs | (1,321) | (1,219) | (156) | (420) | (3,116) |
| Recoveries | 669 | 428 | 185 | 221 | 1,503 |
| (Recapture) provision | (4,443) | (294) | (30) | 23 | (4,744) |
| Balance, end of period | \$7,034 | \$3,895 | \$803 | \$186 | \$11,918 |

| | Nine months ended September 30, 2012 | | | | |
|------------------------------|--------------------------------------|------------|-------------|---------------------|----------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | \$8,939 | \$3,964 | \$991 | \$426 | \$14,320 |
| Charge-offs | (2,570) | (1,257) | (510) | (578) | (4,915) |
| Recoveries | 1,012 | 596 | 147 | 70 | 1,825 |
| Provision | 1,855 | 1,999 | 110 | 338 | 4,302 |
| Balance, end of period | \$9,236 | \$5,302 | \$738 | \$256 | \$15,532 |

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The following table presents the allowance and recorded investment in covered loans by portfolio segment as of September 30, 2013 and 2012:

(in thousands)

| | September 30, 2013 | | | | Total |
|---|------------------------|------------|-------------|------------------|-----------|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | |
| Allowance for covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | \$6,648 | \$3,691 | \$752 | \$135 | \$11,226 |
| Collectively evaluated for impairment (2) | 386 | 204 | 51 | 51 | 692 |
| Total | \$7,034 | \$3,895 | \$803 | \$186 | \$11,918 |
| Covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | \$329,044 | \$17,799 | \$38,887 | \$2,000 | \$387,730 |
| Collectively evaluated for impairment (2) | 2,852 | 10,542 | 5,114 | 2,763 | 21,271 |
| Total | \$331,896 | \$28,341 | \$44,001 | \$4,763 | \$409,001 |
| | September 30, 2012 | | | | |
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | \$8,662 | \$4,785 | \$694 | \$211 | \$14,352 |
| Collectively evaluated for impairment (2) | 574 | 517 | 44 | 45 | 1,180 |
| Total | \$9,236 | \$5,302 | \$738 | \$256 | \$15,532 |
| Covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | \$424,547 | \$28,141 | \$48,838 | \$3,699 | \$505,225 |
| Collectively evaluated for impairment (2) | 2,942 | 15,097 | 4,591 | 2,722 | 25,352 |
| Total | \$427,489 | \$43,238 | \$53,429 | \$6,421 | \$530,577 |

(1) In accordance with ASC 310-30, the valuation allowance is netted against the carrying value of the covered loan balance.

(2) The allowance on covered loan losses includes an allowance on covered loan advances on acquired loans subsequent to acquisition.

The valuation allowance on covered loans was reduced by recaptured provision of \$2.4 million and \$7.9 million for the three and nine months ended September 30, 2013, and \$0.5 million and \$3.7 million for the three and nine months ended September 30, 2012.

Covered Credit Quality Indicators

Covered loans are risk rated in a manner consistent with non-covered loans. As previously noted, the Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating groupings are described fully in Note 5. The following table includes loans acquired with deteriorated credit quality accounted for under ASC 310-30, and advances made subsequent to acquisition on covered loans.

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The following table summarizes our internal risk rating grouping by covered loans, net as of September 30, 2013 and December 31, 2012:

(in thousands)

| | September 30, 2013 | | | | | Total |
|----------------------------|--------------------|--------------------|-------------|----------|------|-----------|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | |
| Commercial real estate | | | | | | |
| Term & multifamily | \$201,171 | \$38,536 | \$70,787 | \$241 | \$— | \$310,735 |
| Construction & development | 1,153 | — | 5,501 | — | — | 6,654 |
| Residential development | 504 | 599 | 5,764 | 603 | — | 7,470 |
| Commercial | | | | | | |
| Term | 4,857 | 3,027 | 5,566 | 415 | — | 13,865 |
| LOC & other | 8,054 | 1,298 | 1,185 | 48 | — | 10,585 |
| Residential | | | | | | |
| Mortgage | 23,161 | — | — | — | — | 23,161 |
| Home equity loans & lines | 19,921 | — | 116 | — | — | 20,037 |
| Consumer & other | 4,576 | — | — | — | — | 4,576 |
| Total | \$263,397 | \$43,460 | \$88,919 | \$1,307 | \$— | \$397,083 |
| | | | | | | |
| | December 31, 2012 | | | | | Total |
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | |
| Construction & development | | | | | | |
| Term & multifamily | \$243,723 | \$47,880 | \$62,811 | \$14,925 | \$— | \$369,339 |
| Construction & development | 1,792 | 195 | 4,315 | 3,386 | — | 9,688 |
| Residential development | — | 391 | 6,658 | 1,309 | — | 8,358 |
| Commercial | | | | | | |
| Term | 9,020 | 3,401 | 4,986 | 2,021 | — | 19,428 |
| LOC & other | 11,498 | 354 | 1,080 | 1,181 | — | 14,113 |
| Residential | | | | | | |
| Mortgage | 27,596 | — | — | — | — | 27,596 |
| Home equity loans & lines | 22,790 | — | 77 | — | — | 22,867 |
| Consumer & other | 5,689 | — | — | — | — | 5,689 |
| Total | \$322,108 | \$52,221 | \$79,927 | \$22,822 | \$— | \$477,078 |

Covered Other Real Estate Owned

All other real estate owned (“OREO”) acquired in FDIC-assisted acquisitions that are subject to a FDIC loss-share agreement are referred to as “covered OREO” and reported separately in our statements of financial position. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the collateral’s net realizable value, less selling costs.

Covered OREO was initially recorded at its estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs. Subsequent to acquisition, loan collateral transferred to OREO is at its net realizable value. Any subsequent valuation adjustments due to declines in fair value will be charged to non-interest expense, and will be mostly offset by non-interest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation

adjustments will be credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

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The following table summarizes the activity related to the covered OREO for the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| | Three months ended | | Nine months ended | |
|-------------------------------------|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | \$3,484 | \$9,191 | \$10,374 | \$19,491 |
| Additions to covered OREO | — | 1,881 | 2,554 | 3,227 |
| Dispositions of covered OREO | (480 |) (2,192 |) (9,245 |) (10,492 |
| Valuation adjustments in the period | (24 |) (769 |) (703 |) (4,115 |
| Balance, end of period | \$2,980 | \$8,111 | \$2,980 | \$8,111 |

FDIC Indemnification Asset

The Company has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC 805, Business Combinations. The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into non-interest income over the life of the FDIC indemnification asset.

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered assets. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to non-interest income. The resulting carrying value of the indemnification asset represents the amounts recoverable from the FDIC for future expected losses, and the amounts due from the FDIC for claims related to covered losses the Company have incurred less amounts due back to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC indemnification asset for each respective acquired portfolio for the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| | Three months ended September 30, 2013 | | | |
|--------------------------------------|---------------------------------------|----------|-----------------|----------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$11,648 | \$10,467 | \$14,148 | \$36,263 |
| Change in FDIC indemnification asset | (3,661 |) (707 |) (2,106 |) (6,474 |
| Transfers to due from FDIC and other | (227 |) (37 |) (98 |) (362 |
| Balance, end of period | \$7,760 | \$9,723 | \$11,944 | \$29,427 |

| | Three months ended September 30, 2012 | | | |
|--------------------------------------|---------------------------------------|----------|-----------------|----------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$22,301 | \$20,571 | \$25,933 | \$68,805 |
| Change in FDIC indemnification asset | (1,731 |) (2,887 |) (141 |) (4,759 |
| Transfers to due from FDIC and other | (1,215 |) (944 |) (1,381 |) (3,540 |
| Balance, end of period | \$19,355 | \$16,740 | \$24,411 | \$60,506 |

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(in thousands)

| | Nine months ended September 30, 2013 | | | |
|--------------------------------------|--------------------------------------|-----------|-----------------|------------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$14,876 | \$15,110 | \$22,812 | \$52,798 |
| Change in FDIC indemnification asset | (6,359) |) (4,479) |) (9,003) |) (19,841) |
| Transfers to due from FDIC and other | (757) |) (908) |) (1,865) |) (3,530) |
| Balance, end of period | \$7,760 | \$9,723 | \$11,944 | \$29,427 |

| | Nine months ended September 30, 2012 | | | |
|--------------------------------------|--------------------------------------|-----------|-----------------|------------|
| | Evergreen | Rainier | Nevada Security | Total |
| Balance, beginning of period | \$28,547 | \$28,272 | \$34,270 | \$91,089 |
| Change in FDIC indemnification asset | (5,830) |) (5,803) |) 989 |) (10,644) |
| Transfers to due from FDIC and other | (3,362) |) (5,729) |) (10,848) |) (19,939) |
| Balance, end of period | \$19,355 | \$16,740 | \$24,411 | \$60,506 |

Note 7 – Mortgage Servicing Rights

The following table presents the changes in the Company's mortgage servicing rights ("MSR") for the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| | Three months ended | | Nine months ended | |
|---|--------------------|----------|--------------------|-----------|
| | September 30, 2013 | 2012 | September 30, 2013 | 2012 |
| Balance, beginning of period | \$38,192 | \$22,513 | \$27,428 | \$18,184 |
| Additions for new mortgage servicing rights capitalized | 4,072 | 5,642 | 15,182 | 11,923 |
| Changes in fair value: | | | | |
| Due to changes in model inputs or assumptions(1) | 3,406 | (2,770) |) 3,739 | (3,833) |
| Other(2) | (3,817) |) (896) |) (4,496) |) (1,785) |
| Balance, end of period | \$41,853 | \$24,489 | \$41,853 | \$24,489 |

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.

(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of September 30, 2013 and December 31, 2012 is as follows:

(dollars in thousands)

| | September 30, 2013 | December 31, 2012 |
|---------------------------------------|--------------------|-------------------|
| Balance of loans serviced for others | \$4,195,759 | \$3,162,080 |
| MSR as a percentage of serviced loans | 1.00 | % 0.87 |

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the Condensed Consolidated Statements of Income, was \$2.7 million and \$7.5 million for the three and nine months ended September 30, 2013, as compared to \$1.7 million and \$4.6 million for the three and nine months ended September 30, 2012.

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Key assumptions used in measuring the fair value of MSR as of September 30, 2013 and December 31, 2012 are as follows:

| | September 30, 2013 | | December 31, 2012 | |
|-------------------------------|--------------------|---|-------------------|---|
| Constant prepayment rate | 16.04 | % | 21.39 | % |
| Discount rate | 8.69 | % | 8.65 | % |
| Weighted average life (years) | 4.9 | | 4.7 | |

A sensitivity analysis of the current fair value to changes in discount and prepayment speed assumptions as of September 30, 2013 and December 31, 2012 is as follows:

| | September 30, 2013 | | December 31, 2012 | |
|--|--------------------|---|-------------------|---|
| Constant prepayment rate | | | | |
| Effect on fair value of a 10% adverse change | \$(2,232 |) | \$(1,445 |) |
| Effect on fair value of a 20% adverse change | \$(4,268 |) | \$(2,754 |) |
| Discount rate | | | | |
| Effect on fair value of a 100 basis point adverse change | \$(1,561 |) | \$(889 |) |
| Effect on fair value of a 200 basis point adverse change | \$(3,017 |) | \$(1,720 |) |

The sensitivity analysis presents the hypothetical effect on fair value of the MSR. The effect of such hypothetical change in assumptions generally cannot be extrapolated because the relationship of the change in an assumption to the change in fair value is not linear. Additionally, in the analysis, the impact of an adverse change in one assumption is calculated independent of any impact on other assumptions. In reality, changes in one assumption may change another assumption.

Note 8 – Non-covered Other Real Estate Owned, Net

The following table presents the changes in non-covered other real estate owned (“OREO”) for the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | \$13,235 | \$26,884 | \$17,138 | \$34,175 |
| Additions to OREO | 7,715 | 1,174 | 14,747 | 10,167 |
| Dispositions of OREO | (2,690 |) (7,750 |) (13,188 |) (19,315 |
| Valuation adjustments in the period | (11 |) (1,044 |) (448 |) (5,763 |
| Balance, end of period | \$18,249 | \$19,264 | \$18,249 | \$19,264 |

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Note 9 – Junior Subordinated Debentures

Following is information about the Company’s wholly-owned trusts (“Trusts”) as of September 30, 2013:

(dollars in thousands)

| Trust Name | Issue Date | Issued Amount | Carrying Value (1) | Rate (2) | Effective Rate (3) | Maturity Date | Redemption Date |
|--------------------------------------|----------------|---------------|--------------------|---------------|--------------------|----------------|-----------------|
| AT FAIR VALUE: | | | | | | | |
| Umpqua Statutory Trust II | October 2002 | \$20,619 | \$14,713 | Floating (4) | 5.07% | October 2032 | October 2007 |
| Umpqua Statutory Trust III | October 2002 | 30,928 | 22,276 | Floating (5) | 5.16% | November 2032 | November 2007 |
| Umpqua Statutory Trust IV | December 2003 | 10,310 | 6,935 | Floating (6) | 4.64% | January 2034 | January 2009 |
| Umpqua Statutory Trust V | December 2003 | 10,310 | 6,915 | Floating (6) | 4.63% | March 2034 | March 2009 |
| Umpqua Master Trust I | August 2007 | 41,238 | 22,496 | Floating (7) | 2.94% | September 2037 | September 2012 |
| Umpqua Master Trust IB | September 2007 | 20,619 | 13,383 | Floating (8) | 4.63% | December 2037 | December 2012 |
| | | 134,024 | 86,718 | | | | |
| AT AMORTIZED COST: | | | | | | | |
| HB Capital Trust I | March 2000 | 5,310 | 6,231 | 10.875% | 8.37% | March 2030 | March 2010 |
| Humboldt Bancorp Statutory Trust I | February 2001 | 5,155 | 5,829 | 10.200% | 8.35% | February 2031 | February 2011 |
| Humboldt Bancorp Statutory Trust II | December 2001 | 10,310 | 11,284 | Floating (9) | 3.04% | December 2031 | December 2006 |
| Humboldt Bancorp Statutory Trust III | September 2003 | 27,836 | 30,377 | Floating (10) | 2.51% | September 2033 | September 2008 |
| CIB Capital Trust | November 2002 | 10,310 | 11,142 | Floating (5) | 3.04% | November 2032 | November 2007 |
| Western Sierra Statutory Trust I | July 2001 | 6,186 | 6,186 | Floating (11) | 3.85% | July 2031 | July 2006 |
| Western Sierra Statutory Trust II | December 2001 | 10,310 | 10,310 | Floating (9) | 3.85% | December 2031 | December 2006 |
| Western Sierra Statutory Trust III | September 2003 | 10,310 | 10,310 | Floating (12) | 3.17% | September 2033 | September 2008 |
| Western Sierra Statutory Trust IV | September 2003 | 10,310 | 10,310 | Floating (12) | 3.17% | September 2033 | September 2008 |
| | | 96,037 | 101,979 | | | | |
| | Total | \$230,061 | \$188,697 | | | | |

Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated (1) debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.

(2) Contractual interest rate of junior subordinated debentures.

(3) Effective interest rate based upon the carrying value as of September 30, 2013.

- (4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
- (5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
- (6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
- (7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
- (8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
- (9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
- (10) Rate based on LIBOR plus 2.95%, adjusted quarterly.
- (11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
- (12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The Trusts are reflected as junior subordinated debentures in the Condensed Consolidated Balance Sheets. The common stock issued by the Trusts is recorded in other assets in the Condensed Consolidated Balance Sheets, and totaled \$6.9 million at September 30, 2013 and \$7.2 million at December 31, 2012.

On January 1, 2007, the Company selected the fair value measurement option for certain pre-existing junior subordinated debentures (the Umpqua Statutory Trusts). The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition. In 2007, the Company issued two series of trust preferred securities and elected to measure each instrument at fair value. Accounting for the junior subordinated

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debentures originally issued by the Company at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost are presented as separate line items on the balance sheet. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants under current market conditions as of the measurement date.

The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Consolidated Balance Sheets. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and has effectively closed the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future.

Due to inactivity in the junior subordinated debenture market and the inability to obtain observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The Company monitors activity in the trust preferred and related markets, to the extent available, changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Regarding the activity in and condition of the junior subordinated debt market, we noted no observable changes in the current period as it relates to companies comparable to our size and condition, in either the primary or secondary markets. Relating to the interest rate environment, we considered the change in slope and shape of the forward LIBOR swap curve in the current period, the effects of which did not result in a significant change in the fair value of these liabilities.

The Company's specific credit risk is implicit in the credit risk adjusted spread used to determine the fair value of our junior subordinated debentures. As our Company is not specifically rated by any credit agency, it is difficult to specifically attribute changes in our estimate of the applicable credit risk adjusted spread to specific changes in our own creditworthiness versus changes in the market's required return from similar companies. As a result, these considerations must be largely based off of qualitative considerations as we do not have a credit rating and we do not regularly issue senior or subordinated debt that would provide us an independent measure of the changes in how the market quantifies our perceived default risk.

On a quarterly basis we assess entity-specific qualitative considerations that if not mitigated or represents a material change from the prior reporting period may result in a change to the perceived creditworthiness and ultimately the estimated credit risk adjusted spread utilized to value these liabilities. Entity-specific considerations that positively impact our creditworthiness include: our strong capital position resulting from our successful public stock offerings in 2009 and 2010 that offers us flexibility to pursue business opportunities such as mergers and acquisitions, or expand our footprint and product offerings; having significant levels of on and off-balance sheet liquidity; being profitable (after excluding the one-time goodwill impairment charge recognized in 2009); and, having an experienced management team. However, these positive considerations are mitigated by significant risks and uncertainties that impact our creditworthiness and ability to maintain capital adequacy in the future. Specific risks and concerns include: given our concentration of loans secured by real estate in our loan portfolio, a continued and sustained deterioration of the real estate market may result in declines in the value of the underlying collateral and increased delinquencies that could result in an increase of charge-offs; despite recent improvement, our credit quality metrics remain negatively elevated since 2007 relative to historical standards; the continuation of current economic downturn that has been particularly severe in our primary markets could adversely affect our business; recent increased regulation facing our industry, such as the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009 and the Dodd-Frank Act, will increase the cost of compliance and restrict our ability to conduct business consistent with

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historical practices, require that we hold additional capital and could negatively impact profitability; we have a significant amount of goodwill and other intangible assets that dilute our available tangible common equity; and the carrying value of certain material, recently recorded assets on our balance sheet, such as the FDIC loss-sharing indemnification asset, are highly reliant on management estimates, such as the timing or amount of losses that are estimated to be covered, and the assumed continued compliance with the provisions of the applicable loss-share agreement. To the extent assumptions ultimately prove incorrect or should we consciously forego or unknowingly violate the guidelines of the agreement, an impairment of the asset may result which would reduce capital.

Additionally, the Company periodically utilizes an external valuation firm to determine or validate the reasonableness of the assessments of inputs and factors that ultimately determines the estimated fair value of these liabilities. The extent we involve or engage these external third parties correlates to management's assessment of the current subordinated debt market, how the current environment and market compares to the preceding quarter, and perceived changes in the Company's own creditworthiness during the quarter. In periods of potential significant valuation changes and at year-end reporting periods we typically engage third parties to perform a full independent valuation of these liabilities. For periods where management has assessed the market and other factors impacting the underlying valuation assumptions of these liabilities, and has determined significant changes to the valuation of these liabilities in the current period are remote, the scope of the valuation specialist's review is limited to a review the reasonableness of management's assessment of inputs. Based on the procedures and methodology as described above, the Company has determined that the underlying inputs and assumptions have not materially changed since that last third-party independent valuation prepared in the fourth quarter of 2012.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner similar to the effective yield method as if these instruments were accounted for under the amortized cost method. This will result in recognizing losses on junior subordinated debentures carried at fair value on a quarterly basis within non-interest income. For the three and nine months ended September 30, 2013, we recorded a loss of \$554,000 and \$1.6 million and for the three and nine months ended September 30, 2012, we recorded a loss of \$554,000 and \$1.6 million resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework ("Basel III"). Under the final rule, consistent with Section 171 of the Dodd-Frank Act, bank holding companies with less than \$15 billion assets as of December 31, 2009 will be grandfathered and may continue to include these instruments in Tier 1 capital, subject to certain restrictions. However, if an institution grows above \$15 billion as a result of an acquisition (as would result from the proposed merger with Sterling), or organically grows above \$15 billion and then makes an acquisition, the combined trust preferred issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016 and later). As the Company had less than \$15 billion in assets at December 31, 2009, the Company will be able to continue to include its existing trust preferred securities, less the common stock of the Trusts, in the Company's Tier 1 capital. If the Company exceeds \$15 billion in consolidated assets other than in an organic manner and these instruments no longer qualify as Tier 1 capital, it is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. The Company currently does not intend to redeem the junior subordinated debentures following the proposed merger in order to support regulatory total capital levels. At September 30, 2013,

the Company's restricted core capital elements were 18.8% of total core capital, net of goodwill and any associated deferred tax liability.

Note 10 – Commitments and Contingencies

Lease Commitments — The Bank leases 159 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three and nine months ended September 30, 2013 was \$4.9 million and \$14.2 million and for the three and nine months ended September 30, 2012 was \$4.2 million and \$12.8 million. Rent expense was offset by rent income for the three and nine months ended September 30, 2013 of \$148,000 and \$596,000 and for the three and nine months ended September 30, 2012 of \$248,000 and \$856,000.

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Financial Instruments with Off-Balance-Sheet Risk — The Company's financial statements do not reflect various commitments and contingent liabilities that arise in the normal course of the Bank's business and involve elements of credit, liquidity, and interest rate risk.

The following table presents a summary of the Bank's commitments and contingent liabilities:

(in thousands)

| | As of September 30, 2013 |
|--|-----------------------------|
| Commitments to extend credit | \$1,614,682 |
| Commitments to extend overdrafts | \$202,021 |
| Forward sales commitments | \$184,576 |
| Commitments to originate loans held for sale | \$112,421 |
| Standby letters of credit | \$49,428 |

The Bank is a party to financial instruments with off-balance-sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve elements of credit and interest-rate risk similar to the risk involved in on-balance sheet items recognized in the Condensed Consolidated Balance Sheets. The contract or notional amounts of those instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any covenant or condition established in the applicable contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. While most standby letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral varies but may include cash, accounts receivable, inventory, premises and equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank was not required to perform on any financial guarantees and had \$116,000 in recoveries in the three and nine months ended September 30, 2013 and incurred none and \$78,000 in losses in connection with standby letters of credit during the three and nine months ended September 30, 2013. The Bank was not required to perform on any financial guarantees and incurred no losses in connection with standby letters of credit during the three and nine months ended September 30, 2012. At September 30, 2013, approximately \$31.1 million of standby letters of credit expire within one year, and \$18.3 million

expire thereafter. Upon issuance, the Bank recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was \$206,000 as of September 30, 2013.

Mortgage loans sold to investors may be sold with servicing rights retained, for which the Bank makes only standard legal representations and warranties as to meeting certain underwriting and collateral documentation standards. In the past two years, the Bank has had to repurchase fewer than 20 loans due to deficiencies in underwriting or loan documentation and has not realized significant losses related to these repurchases. Management believes that any liabilities that may result from such recourse provisions are not significant.

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Legal Proceedings—The Bank owns 468,659 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4206 per Class A share. As of September 30, 2013, the value of the Class A shares was \$191.10 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was \$37.7 million as of September 30, 2013, and has not been reflected in the accompanying financial statements. The shares of Visa Inc. Class B common stock are restricted and may not be transferred. Visa member banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa Inc. may sell additional Class A shares and use the proceeds to settle litigation, thereby reducing the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

On July 13, 2012, Visa Inc. announced that it had entered into a memorandum of understanding obligating it to enter into a settlement agreement to resolve the multi-district interchange litigation brought by the class plaintiffs in the matter styled In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation, Case No. 5-MD-1720 (JG) (JO) pending in the U.S. District Court for the Eastern District of New York. The claims originally were brought by a class of U.S. retailers in 2005. The proposed settlement is subject to court approval and Visa's share of the settlement to be paid is estimated to be approximately \$4.4 billion. However, certain trade associations and merchants are actively opposing the proposed settlement and it is unknown when or if the proposed settlement will be approved. A fairness hearing was held on September 12, 2013 to determine if the settlement will be finally approved. It is not known when the Court will issue an order related to the motion for final approval of the settlement. The effect of this proposed settlement on the value of the Bank's Class B common stock is unknown at this time.

In the ordinary course of business, various claims and lawsuits are brought by and against the Company and its subsidiaries, including the Bank and Umpqua Investments. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the Company's consolidated financial condition or results of operations.

Concentrations of Credit Risk— The Bank grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, and Nevada. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 75% and 79% of the Bank's non-covered loan and lease portfolio at September 30, 2013 and December 31, 2012. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Bank's primary market areas in particular, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

The Bank recognizes the credit risks inherent in dealing with other depository institutions. Accordingly, to prevent excessive exposure to any single correspondent, the Bank has established general standards for selecting correspondent banks as well as internal limits for allowable exposure to any single correspondent. In addition, the Bank has an investment policy that sets forth limitations that apply to all investments with respect to credit rating and concentrations with an issuer.

Note 11 – Derivatives

The Bank may use derivatives to hedge the risk of changes in the fair values of interest rate lock commitments, residential mortgage loans held for sale, and mortgage servicing rights. None of the Company's derivatives are designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges,

with changes in the fair value of the derivatives reported in income. The Company primarily utilizes forward interest rate contracts in its derivative risk management strategy.

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2013 and 2012. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward

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contract. At September 30, 2013, the Bank had commitments to originate mortgage loans held for sale totaling \$112.4 million and forward sales commitments of \$184.6 million.

The Bank's mortgage banking derivative instruments do not have specific credit risk-related contingent features. The forward sales commitments do have contingent features that may require transferring collateral to the broker/dealers upon their request. However, this amount would be limited to the net unsecured loss exposure at such point in time and would not materially affect the Company's liquidity or results of operations.

The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of September 30, 2013, the Bank had 239 interest rate swaps with an aggregate notional amount of \$1.2 billion related to this program.

In connection with the interest rate swap program with commercial customers, the Bank has agreements with its derivative counterparties that contain a provision where if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligations. The Bank also has agreements with its derivative counterparties that contain a provision where if the Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations under the agreements. Similarly, the Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as if the Bank were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels. If the Bank had breached any of these provisions at September 30, 2013, it could have been required to settle its obligations under the agreements at the termination value.

As of September 30, 2013, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$12.0 million. The Bank has collateral posting requirements for initial or variation margins with its clearing members and clearing houses and has been required to post collateral against its obligations under these agreements of \$10.4 million as of September 30, 2013. The Bank also has minimum collateral posting thresholds with certain of its derivative counterparties, and has been required to post collateral against its obligations under these agreements of \$3.3 million as of September 30, 2013.

The fair value of the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, to comply with the provisions of ASC 820, the Bank incorporates credit valuation adjustments ("CVA") to appropriately reflect nonperformance risk in the fair value measurements of its derivatives. The CVA is calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying the counterparties' credit spreads to the exposure. For derivatives with two-way exposure, specifically, the Bank's interest rate swaps, the counterparty's credit spread is applied to the Bank's exposure to the counterparty, and the Bank's own credit spread is applied to the counterparty's exposure to the Bank, and the net CVA is reflected in the Bank's derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. For the Bank's own credit spread and for counterparties having publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. For counterparties without publicly available credit information, which are primarily commercial banking customers, the credit spreads over LIBOR used in the calculations are estimated by the Bank based on current market conditions, including consideration of current borrowing spreads for similar customers and transactions,

review of existing collateralization or other credit enhancements, and changes in credit sector and entity-specific credit information. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Bank has considered the impact of netting and any applicable credit enhancements. Effective January 1, 2012, the Company made an accounting policy election to use the exception commonly referred to as the “portfolio exception” with respect to measuring counterparty credit risk for its interest rate swap derivative instruments that are subject to master netting agreements with commercial banking customers that are hedged with offsetting interest rate swaps with third parties.

As of January 1, 2013, the Bank changed its valuation methodology for interest rate swap derivatives to discount cash flows based on Overnight Index Swap (“OIS”) rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially-collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (e.g., a LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk. The Company is making the changes to better align its inputs, assumptions, and pricing methodologies with those used in its principal market by most dealers and major market participants. The changes in

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valuation methodology are applied prospectively as a change in accounting estimate and are immaterial to the Company's financial statements.

As of September 30, 2013, the net CVA increased the settlement values of the Bank's net derivative assets by \$1.2 million. During the three and nine months ended September 30, 2013, the Bank recognized a loss of \$0.7 million and a gain of \$1.1 million, and during the three and nine months ended September 30, 2012, the Bank recognized a loss of \$235,000 and \$352,000, respectively related to credit valuation adjustments on nonhedge derivative instruments, which is included in noninterest income. Various factors impact changes in the CVA over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

The following tables summarize the types of derivatives, separately by assets and liabilities, their locations on the Condensed Consolidated Balance Sheets, and the fair values of such derivatives as of September 30, 2013 and December 31, 2012:

(in thousands)

| Derivatives not designated as hedging instrument | Balance Sheet Location | Asset Derivatives | | Liability Derivatives | |
|---|--------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| | | September 30, 2013 | December 31, 2012 | September 30, 2013 | December 31, 2012 |
| Interest rate lock commitments | Other assets/Other liabilities | \$3,008 | \$1,496 | \$— | \$18 |
| Interest rate forward sales commitments | Other assets/Other liabilities | — | 133 | 3,784 | 905 |
| Interest rate swaps | Other assets/Other liabilities | 14,477 | 22,213 | 13,211 | 22,048 |
| Total | | \$17,485 | \$23,842 | \$16,995 | \$22,971 |

The following table summarizes the types of derivatives, their locations within the Condensed Consolidated Statements of Income, and the gains (losses) recorded during the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| Derivatives not designated as hedging instrument | Income Statement Location | Three months ended September 30, | | Nine months ended September 30, | |
|---|------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
| | | 2013 | 2012 | 2013 | 2012 |
| Interest rate lock commitments | Mortgage banking revenue | \$2,370 | \$1,680 | \$1,530 | \$2,216 |
| Interest rate forward sales commitments | Mortgage banking revenue | (3,239) | (11,695) | 11,508 | (21,504) |
| Interest rate swaps | Other income | (738) | (235) | 1,101 | (352) |
| Total | | \$(1,607) | \$(10,250) | \$14,139 | \$(19,640) |

The following table summarizes the offsetting derivatives assets that have a right of offset as of September 30, 2013 and December 31, 2012:

(in thousands)

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| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|------------------------|--|--|---|---|----------------------|---------------|
| | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets/Liabilities presented in the Statement of Financial Position | Financial Instruments | Collateral Posted | Net Amount |
| September 30, 2013 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | \$ 14,477 | \$— | \$ 14,477 | \$(3,503) | \$— | \$10,974 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | \$ 13,211 | \$— | \$ 13,211 | \$(3,503) | \$(9,708) | \$— |
| December 31, 2012 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | \$ 22,213 | \$— | \$ 22,213 | \$(16) | \$— | \$22,197 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | \$ 22,048 | \$— | \$ 22,048 | \$(16) | \$(22,032) | \$— |

Note 12 – Shareholders' Equity

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was \$1.3 million and \$3.5 million for the three and nine months ended September 30, 2013 as compared to \$1.0 million and \$3.0 million for the three and nine months ended September 30, 2012. The total income tax benefit recognized related to stock-based compensation was \$524,000 and \$1.4 million for the three and nine months ended September 30, 2013 as compared to \$415,000 and \$1.2 million for the three and nine months ended September 30, 2012.

The following table summarizes information about stock option activity for the nine months ended September 30, 2013:

(in thousands, except per share data)

| | Nine months ended September 30, 2013 | | | |
|------------------------------------|--------------------------------------|----------------|--|-----------------|
| | Options | Weighted-Avg | Weighted-Avg Remaining Contractual | Aggregate |
| | Outstanding | Exercise Price | Term (Years) | Intrinsic Value |
| Balance, beginning of period | 1,850 | \$ 15.37 | | |
| Exercised | (209) | \$ 12.02 | | |
| Forfeited/expired | (348) | \$ 17.40 | | |
| Balance, end of period | 1,293 | \$ 15.37 | 4.78 | \$3,873 |
| Options exercisable, end of period | 935 | \$ 16.89 | 3.91 | \$2,145 |

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three and nine months ended September 30, 2013 was \$630,000 and \$767,000 as compared to three and nine months ended September 30, 2012 of \$65,000 and \$82,000. During the three and nine months ended September 30, 2013, the amount of cash received from the exercise of stock options was \$1.7 million and \$2.5 million as compared to the three and nine months ended September 30, 2012 of \$246,000 and \$324,000.

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. There were no stock options granted in the three and nine months ended September 30, 2013 and 2012.

The Company grants restricted stock periodically for the benefit of employees and directors. Restricted shares issued prior to 2011 generally vest on an annual basis over five years. Restricted shares issued since 2011 generally vest over a three year

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period, subject to time or time plus performance vesting conditions. The following table summarizes information about nonvested restricted share activity for the nine months ended September 30, 2013:

(in thousands, except per share data)

| | Nine months ended September 30, 2013 | |
|------------------------------|--------------------------------------|--|
| | Restricted Shares Outstanding | Weighted Average Grant Date Fair Value |
| Balance, beginning of period | 763 | \$ 12.39 |
| Granted | 465 | \$ 13.06 |
| Released | (149 |) \$ 12.19 |
| Forfeited/expired | (83 |) \$ 11.75 |
| Balance, end of period | 996 | \$ 12.79 |

The total fair value of restricted shares vested and released during the three and nine months ended September 30, 2013 was \$108,000 and \$1.9 million as compared to the three and nine months ended September 30, 2012 of \$136,000 and \$1.8 million.

The Company granted restricted stock units as a part of the 2007 Long Term Incentive Plan for the benefit of certain executive officers. Restricted stock unit grants are subject to performance-based vesting as well as other approved vesting conditions. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements. There were no restricted stock units vested and released and there were none and 35,000 restricted stock units forfeited during the three and nine months ended September 30, 2013, and 95,000 restricted stock units with a weighted average grant date fair value of \$10.41 remain outstanding at September 30, 2013.

As of September 30, 2013, there was \$0.9 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 1 year. As of September 30, 2013, there was \$7.2 million of total unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 1.7 years. As of September 30, 2013, there was \$228,000 of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 0.5 years, assuming expected performance conditions are met.

For the three and nine months ended September 30, 2013, the Company received income tax benefits of \$294,000 and \$1.1 million, respectively, as compared to the three and nine months ended September 30, 2012 of \$79,000 and \$764,000 related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. In the nine months ended September 30, 2013, the Company had net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) of \$20,000, compared to \$60,000 of net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) for the nine months ended September 30, 2012. Only cash flows from gross excess tax benefits are classified as financing cash flows.

At the annual meeting on April 16, 2013, shareholders approved the Company's 2013 Incentive Plan (the "2013 Plan"), which, among other things, authorizes the issuance of equity awards to directors and employees and reserves 4,000,000 shares of the Company's common stock for issuance under the plan. With the adoption of the 2013 Plan, no additional awards will be issued from the 2003 Stock Incentive Plan or the 2007 Long Term Incentive Plan.

Note 13 – Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as the Oregon and California state jurisdictions. Additionally, as a result of the FinPac acquisition, the Company will now be subject to filings in the majority of states and in Canada. The Company is no longer subject to U.S. federal or other state tax authority examinations for years before 2009, except in California for years before 2005 and for Canadian tax authority examinations for years before 2012. During 2010, the Internal Revenue Service concluded an examination of the Company's U.S. income tax returns through 2008. The results of these examinations had no significant impact on the Company's financial statements.

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The Company had gross unrecognized tax benefits relating to California tax incentives of \$602,000 recorded as of September 30, 2013. If recognized, the unrecognized tax benefit would reduce the 2013 annual effective tax rate by 0.3%. During the nine months ended September 30, 2013, the Company recognized an expense of \$18,000 in interest relating to its liability for unrecognized tax benefits. Interest expense is reported by the Company as a component of tax expense. As of September 30, 2013, the accrued interest related to unrecognized tax benefits is \$187,000.

Note 14 – Earnings Per Common Share

Nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested restricted stock awards qualify as participating securities.

Net earnings, less any preferred dividends accumulated for the period (whether or not declared), is allocated between the common stock and participating securities pursuant to the two-class method. Basic earnings per common share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. For all periods presented, stock options, certain restricted stock awards and restricted stock units are the only potentially dilutive non-participating instruments issued by the Company. Next, we determine and include in diluted earnings per common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Undistributed losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

The following is a computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2013 and 2012:

(in thousands, except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| NUMERATORS: | | | | |
| Net income | \$23,477 | \$25,153 | \$73,091 | \$73,933 |
| Less: | | | | |
| Dividends and undistributed earnings allocated to participating securities (1) | 196 | 170 | 576 | 499 |
| Net earnings available to common shareholders | \$23,281 | \$24,983 | \$72,515 | \$73,434 |
| DENOMINATORS: | | | | |
| Weighted average number of common shares outstanding - basic | 111,912 | 111,899 | 111,934 | 111,928 |
| Effect of potentially dilutive common shares (2) | 283 | 252 | 220 | 231 |
| Weighted average number of common shares outstanding - diluted | 112,195 | 112,151 | 112,154 | 112,159 |
| EARNINGS PER COMMON SHARE: | | | | |

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| | | | | |
|---------|--------|--------|--------|--------|
| Basic | \$0.21 | \$0.22 | \$0.65 | \$0.66 |
| Diluted | \$0.21 | \$0.22 | \$0.65 | \$0.65 |

(1) Represents dividends paid and undistributed earnings allocated to nonvested restricted stock awards.

(2) Represents the effect of the assumed exercise of stock options, vesting of non-participating restricted shares, and vesting of restricted stock units, based on the treasury stock method.

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The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three and nine months ended September 30, 2013 and 2012.

(in thousands)

| | Three months ended | | Nine months ended | |
|---------------|--------------------|-------|-------------------|-------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Stock options | 363 | 1,141 | 738 | 1,313 |

Note 15 – Segment Information

The Company operates three primary segments: Community Banking, Home Lending and Wealth Management. The Community Banking segment's principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of September 30, 2013, the Community Banking segment operated 206 locations throughout Oregon, California, Washington, and Nevada.

The Home Lending segment, which operates as a division of the Bank, originates, sells and services residential mortgage loans.

The Wealth Management segment consists of the operations of Umpqua Investments, which offers a full range of retail brokerage services and products to its clients who consist primarily of individual investors, and Umpqua Private Bank, which serves high net worth individuals with liquid investable assets and provides customized financial solutions and offerings. The Company accounts for intercompany fees and services between Umpqua Investments and the Bank at estimated fair value according to regulatory requirements for services provided. Intercompany items relate primarily to management services, referral fees and deposit rebates.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the consolidated financial results is shown in the following tables:

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Segment Information

(in thousands)

| | Three months ended September 30, 2013 | | | Consolidated |
|--|---------------------------------------|----------------------|-----------------|--------------|
| | Community Banking | Wealth Management | Home Lending | |
| Interest income | \$106,848 | \$3,746 | \$5,366 | \$115,960 |
| Interest expense | 8,359 | 178 | 614 | 9,151 |
| Net interest income | 98,489 | 3,568 | 4,752 | 106,809 |
| Provision for non-covered loan and lease losses | 3,008 | — | — | 3,008 |
| (Recapture of) provision for covered loan losses | (1,904 |) — | — | (1,904 |
| Non-interest income | 6,970 | 4,070 | 15,104 | 26,144 |
| Non-interest expense | 81,561 | 4,298 | 9,745 | 95,604 |
| Income before income taxes | 22,794 | 3,340 | 10,111 | 36,245 |
| Provision for income taxes | 7,395 | 1,329 | 4,044 | 12,768 |
| Net income | 15,399 | 2,011 | 6,067 | 23,477 |
| Dividends and undistributed earnings allocated to participating securities | 196 | — | — | 196 |
| Net earnings available to common shareholders | \$15,203 | \$2,011 | \$6,067 | \$23,281 |
| | Nine months ended September 30, 2013 | | | |
| | Community Banking | Wealth Management | Home Lending | Consolidated |
| Interest income | \$296,943 | \$10,957 | \$16,408 | \$324,308 |
| Interest expense | 26,920 | 551 | 1,946 | 29,417 |
| Net interest income | 270,023 | 10,406 | 14,462 | 294,891 |
| Provision for non-covered loan and lease losses | 12,989 | — | — | 12,989 |
| (Recapture of) provision for covered loan losses | (4,744 |) — | — | (4,744 |
| Non-interest income | 19,608 | 11,803 | 63,245 | 94,656 |
| Non-interest expense | 225,880 | 12,531 | 30,886 | 269,297 |
| Income before income taxes | 55,506 | 9,678 | 46,821 | 112,005 |
| Provision for income taxes | 16,323 | 3,863 | 18,728 | 38,914 |
| Net income | 39,183 | 5,815 | 28,093 | 73,091 |
| Dividends and undistributed earnings allocated to participating securities | 576 | — | — | 576 |
| Net earnings available to common shareholders | \$38,607 | \$5,815 | \$28,093 | \$72,515 |

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(in thousands)

| | Three months ended September 30, 2012 | | | Consolidated |
|--|---------------------------------------|----------------------|-----------------|--------------|
| | Community Banking | Wealth Management | Home Lending | |
| Interest income | \$105,352 | \$3,235 | \$5,521 | \$114,108 |
| Interest expense | 11,137 | 197 | 734 | 12,068 |
| Net interest income | 94,215 | 3,038 | 4,787 | 102,040 |
| Provision for non-covered loan and lease losses | 7,078 | — | — | 7,078 |
| Provision for covered loan losses | 2,927 | — | — | 2,927 |
| Non-interest income | 5,805 | 3,370 | 24,504 | 33,679 |
| Non-interest expense | 72,947 | 3,743 | 10,284 | 86,974 |
| Income before income taxes | 17,068 | 2,665 | 19,007 | 38,740 |
| Provision for income taxes | 5,031 | 953 | 7,603 | 13,587 |
| Net income | 12,037 | 1,712 | 11,404 | 25,153 |
| Dividends and undistributed earnings allocated to participating securities | 170 | — | — | 170 |
| Net earnings available to common shareholders | \$11,867 | \$1,712 | \$11,404 | \$24,983 |

| | Nine months ended September 30, 2012 | | | Consolidated |
|--|--------------------------------------|----------------------|-----------------|--------------|
| | Community Banking | Wealth Management | Home Lending | |
| Interest income | \$318,007 | \$10,704 | \$14,633 | \$343,344 |
| Interest expense | 35,245 | 694 | 1,998 | 37,937 |
| Net interest income | 282,762 | 10,010 | 12,635 | 305,407 |
| Provision for non-covered loan and lease losses | 16,883 | — | — | 16,883 |
| Provision for covered loan losses | 4,302 | — | — | 4,302 |
| Non-interest income | 26,178 | 10,220 | 53,444 | 89,842 |
| Non-interest expense | 223,939 | 11,423 | 26,244 | 261,606 |
| Income before income taxes | 63,816 | 8,807 | 39,835 | 112,458 |
| Provision for income taxes | 19,422 | 3,169 | 15,934 | 38,525 |
| Net income | 44,394 | 5,638 | 23,901 | 73,933 |
| Dividends and undistributed earnings allocated to participating securities | 499 | — | — | 499 |
| Net earnings available to common shareholders | \$43,895 | \$5,638 | \$23,901 | \$73,434 |

(in thousands)

| | September 30, 2013 | | | Consolidated |
|--|----------------------|----------------------|-----------------|--------------|
| | Community Banking | Wealth Management | Home Lending | |
| Total assets | \$10,799,306 | \$117,534 | \$652,457 | \$11,569,297 |
| Total loans and leases (covered and non-covered) | \$7,031,325 | \$101,934 | \$492,728 | \$7,625,987 |
| Total deposits | \$8,652,751 | \$363,010 | \$51,479 | \$9,067,240 |

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(in thousands)

| | December 31, 2012 | | | |
|--|----------------------|----------------------|-----------------|--------------|
| | Community Banking | Wealth Management | Home Lending | Consolidated |
| Total assets | \$10,984,996 | \$90,370 | \$720,077 | \$11,795,443 |
| Total loans and leases (covered and non-covered) | \$6,713,792 | \$74,132 | \$370,234 | \$7,158,158 |
| Total deposits | \$8,968,867 | \$382,033 | \$28,375 | \$9,379,275 |

Note 16 – Fair Value Measurement

The following table presents estimated fair values of the Company's financial instruments as of September 30, 2013 and December 31, 2012, whether or not recognized or recorded at fair value in the Condensed Consolidated Balance Sheets:

(in thousands)

| | September 30, 2013 | | December 31, 2012 | |
|---|--------------------|---------------|-------------------|---------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| FINANCIAL ASSETS: | | | | |
| Cash and cash equivalents | \$697,091 | \$697,091 | \$543,787 | \$543,787 |
| Trading securities | 4,012 | 4,012 | 3,747 | 3,747 |
| Securities available for sale | 1,910,082 | 1,910,082 | 2,625,229 | 2,625,229 |
| Securities held to maturity | 5,766 | 6,030 | 4,541 | 4,732 |
| Loans held for sale | 113,993 | 113,993 | 320,132 | 320,132 |
| Non-covered loans and leases, net | 7,144,210 | 7,110,101 | 6,595,689 | 6,652,179 |
| Covered loans, net | 397,083 | 449,239 | 477,078 | 543,628 |
| Restricted equity securities | 31,444 | 31,444 | 33,443 | 33,443 |
| Mortgage servicing rights | 41,853 | 41,853 | 27,428 | 27,428 |
| Bank owned life insurance assets | 94,637 | 94,637 | 93,831 | 93,831 |
| FDIC indemnification asset | 29,427 | 6,980 | 52,798 | 18,714 |
| Derivatives | 17,485 | 17,485 | 23,842 | 23,842 |
| Visa Class B common stock | — | 35,786 | — | 28,385 |
| FINANCIAL LIABILITIES: | | | | |
| Deposits | \$9,067,240 | \$9,077,231 | \$9,379,275 | \$9,396,646 |
| Securities sold under agreements to repurchase | 215,310 | 215,310 | 137,075 | 137,075 |
| Term debt | 252,017 | 279,183 | 253,605 | 289,404 |
| Junior subordinated debentures, at fair value | 86,718 | 86,718 | 85,081 | 85,081 |
| Junior subordinated debentures, at amortized cost | 101,979 | 71,553 | 110,985 | 78,529 |
| Derivatives | 16,995 | 16,995 | 22,971 | 22,971 |

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Fair Value of Assets and Liabilities Not Measured at Fair Value

The following table presents information about the level in the fair value hierarchy for the Company's assets and liabilities that are not measured at fair value as of September 30, 2013 and December 31, 2012:

(in thousands)

| Description | September 30, 2013 | | | |
|---|--------------------|-------------|-----------|-----------|
| | Total | Level 1 | Level 2 | Level 3 |
| ASSETS | | | | |
| Cash and cash equivalents | \$697,091 | \$697,091 | \$— | \$— |
| Securities held to maturity | 4,012 | — | — | 4,012 |
| Non-covered loans and leases, net | 7,110,101 | — | — | 7,110,101 |
| Covered loans, net | 449,239 | — | — | 449,239 |
| Restricted equity securities | 31,444 | 31,444 | — | — |
| Bank owned life insurance assets | 94,637 | 94,637 | — | — |
| FDIC indemnification asset | 6,980 | — | — | 6,980 |
| Visa Class B common stock | 35,786 | — | — | 35,786 |
| LIABILITIES | | | | |
| Deposits | | | | |
| Non-maturity deposits | \$7,434,771 | \$7,434,771 | \$— | \$— |
| Deposits with stated maturities | 1,642,460 | — | 1,642,460 | — |
| Securities sold under agreements to repurchase | 215,310 | — | 215,310 | — |
| Term debt | 279,183 | — | 279,183 | — |
| Junior subordinated debentures, at amortized cost | 71,553 | — | — | 71,553 |

(in thousands)

| Description | December 31, 2012 | | | |
|---|-------------------|-------------|-----------|-----------|
| | Total | Level 1 | Level 2 | Level 3 |
| ASSETS | | | | |
| Cash and cash equivalents | \$543,787 | \$543,787 | \$— | \$— |
| Securities held to maturity | 4,732 | — | — | 4,732 |
| Non-covered loans and leases, net | 6,652,179 | — | — | 6,652,179 |
| Covered loans, net | 543,628 | — | — | 543,628 |
| Restricted equity securities | 33,443 | 33,443 | — | — |
| Bank owned life insurance assets | 93,831 | 93,831 | — | — |
| FDIC indemnification asset | 18,714 | — | — | 18,714 |
| Visa Class B common stock | 28,385 | — | — | 28,385 |
| LIABILITIES | | | | |
| Deposits | | | | |
| Non-maturity deposits | \$7,376,288 | \$7,376,288 | \$— | \$— |
| Deposits with stated maturities | 2,020,358 | — | 2,020,358 | — |
| Securities sold under agreements to repurchase | 137,075 | — | 137,075 | — |
| Term debt | 289,404 | — | 289,404 | — |
| Junior subordinated debentures, at amortized cost | 78,529 | — | — | 78,529 |

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

(in thousands)

| Description | September 30, 2013 | | | |
|--|--------------------|---------|-------------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Trading securities | | | | |
| Obligations of states and political subdivisions | \$551 | \$— | \$551 | \$— |
| Equity securities | 3,364 | 3,364 | — | — |
| Other investments securities(1) | 97 | — | 97 | — |
| Available for sale securities | | | | |
| U.S. Treasury and agencies | 278 | — | 278 | — |
| Obligations of states and political subdivisions | 240,531 | — | 240,531 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,667,144 | — | 1,667,144 | — |
| Other debt securities | 134 | — | 134 | — |
| Investments in mutual funds and other equity securities | 1,995 | — | 1,995 | — |
| Loans held for sale, at fair value | 113,993 | — | 113,993 | — |
| Mortgage servicing rights, at fair value | 41,853 | — | — | 41,853 |
| Derivatives | | | | |
| Interest rate lock commitments | 3,008 | — | — | 3,008 |
| Interest rate forward sales commitments | — | — | — | — |
| Interest rate swaps | 14,477 | — | 14,477 | — |
| Total assets measured at fair value | \$2,087,425 | \$3,364 | \$2,039,200 | \$44,861 |
| Junior subordinated debentures, at fair value | \$86,718 | \$— | \$— | \$86,718 |
| Derivatives | | | | |
| Interest rate lock commitments | — | — | — | — |
| Interest rate forward sales commitments | 3,784 | — | 3,784 | — |
| Interest rate swaps | 13,211 | — | 13,211 | — |
| Total liabilities measured at fair value | \$103,713 | \$— | \$16,995 | \$86,718 |

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(in thousands)

| Description | December 31, 2012 | | | |
|--|-------------------|----------|--------------|-----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Trading securities | | | | |
| Obligations of states and political subdivisions | \$ 1,216 | \$— | \$ 1,216 | \$— |
| Equity securities | 2,408 | 2,408 | — | — |
| Other investments securities(1) | 123 | — | 123 | — |
| Available for sale securities | | | | |
| U.S. Treasury and agencies | 45,820 | — | 45,820 | — |
| Obligations of states and political subdivisions | 263,725 | — | 263,725 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,313,376 | — | 2,313,376 | — |
| Other debt securities | 222 | — | 222 | — |
| Investments in mutual funds and other equity securities | 2,086 | — | 2,086 | — |
| Loans held for sale, at fair value | 320,132 | — | 320,132 | — |
| Mortgage servicing rights, at fair value | 27,428 | — | — | 27,428 |
| Derivatives | | | | |
| Interest rate lock commitments | 1,496 | — | — | 1,496 |
| Interest rate forward sales commitments | 133 | — | 133 | — |
| Interest rate swaps | 22,213 | — | 22,213 | — |
| Total assets measured at fair value | \$ 3,000,378 | \$ 2,408 | \$ 2,969,046 | \$ 28,924 |
| Junior subordinated debentures, at fair value | \$ 85,081 | \$— | \$— | \$ 85,081 |
| Derivatives | | | | |
| Interest rate lock commitments | 18 | — | — | 18 |
| Interest rate forward sales commitments | 905 | — | 905 | — |
| Interest rate swaps | 22,048 | — | 22,048 | — |
| Total liabilities measured at fair value | \$ 108,052 | \$— | \$ 22,953 | \$ 85,099 |

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies.

The following methods were used to estimate the fair value of each class of financial instrument above:

Cash and Cash Equivalents—For short-term instruments, including cash and due from banks, and interest bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

Securities— Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, or broker indicative bids, when market quotes are not readily accessible or available.

Loans Held for Sale— Fair value is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights.

Non-covered Loans and Leases - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, including commercial, real estate and consumer loans. Each loan category is further segregated by fixed and variable rate. For variable rate loans, carrying value approximates fair value. The fair value of fixed rate loans is calculated by discounting contractual cash flows at rates which similar loans are currently being made. These amounts are discounted further by embedded probable losses expected to be realized in the portfolio.

Covered Loans – Covered loans are initially measured at their estimated fair value on their date of acquisition as described in Note 6. Subsequent to acquisition, the fair value of covered loans is measured using the same methodology as that of non-covered loans.

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Restricted Equity Securities – The carrying value of restricted equity securities approximates fair value as the shares can only be redeemed by the issuing institution at par.

Mortgage Servicing Rights - The fair value of mortgage servicing rights is estimated using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Management believes the significant inputs utilized are indicative of those that would be used by market participants.

Bank Owned Life Insurance Assets – Fair values of insurance policies owned are based on the insurance contract's cash surrender value.

FDIC Indemnification Asset - The FDIC indemnification asset is calculated as the expected future cash flows under the loss-share agreement discounted by a rate reflective of the creditworthiness of the FDIC as would be required from the market.

Visa Class B Common Stock - The fair value of Visa Class B common stock is estimated by applying a 5% discount to the value of the unredeemed Class A equivalent shares. The discount primarily represents the risk related to the further potential reduction of the conversion ratio between Class B and Class A shares and a liquidity risk premium.

Deposits—The fair value of deposits with no stated maturity, such as non-interest bearing deposits, savings and interest checking accounts, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold under Agreements to Repurchase and Federal Funds Purchased - For short-term instruments, including securities sold under agreements to repurchase and federal funds purchased, the carrying amount is a reasonable estimate of fair value.

Term Debt—The fair value of medium term notes is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Junior Subordinated Debentures - The fair value of junior subordinated debentures is estimated using an income approach valuation technique. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, we have classified this as a Level 3 fair value measure. For further discussion of the valuation technique and inputs, see Note 9.

Derivative Instruments - The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The pull-through rate assumptions are considered Level 3 valuation inputs and are significant to the interest rate lock commitment valuation; as such, the interest rate lock commitment derivatives are classified as Level 3. The fair value of the interest rate swaps is determined using a discounted cash flow technique incorporating credit valuation adjustments to reflect nonperformance risk in the measurement of fair value. Although the Bank has determined that the majority of the inputs used to value its interest rate swap derivatives fall within Level 2 of the fair value hierarchy, the CVA

associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2013, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its interest rate swap positions and has determined that the CVA are not significant to the overall valuation of its interest rate swap derivatives. As a result, the Bank has classified its interest rate swap derivative valuations in Level 2 of the fair value hierarchy.

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

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The following table provides a description of the valuation technique, unobservable input, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at September 30, 2013:

(in thousands)

| Financial Instrument | Valuation Technique | Unobservable Input | Weighted Average (Range) |
|--------------------------------|------------------------|--------------------------|--------------------------|
| Mortgage servicing rights | Discounted cash flow | Constant Prepayment Rate | 16.04% |
| | | Discount Rate | 8.69% |
| Interest rate lock commitment | Internal Pricing Model | Pull-through rate | 73.9% |
| | | Credit Spread | 6.21% |
| Junior subordinated debentures | Discounted cash flow | | |

Generally, any significant increases in the constant prepayment rate and discount rate utilized in the fair value measurement of the mortgage servicing rights will result in negative fair value adjustments (and a decrease in the fair value measurement). Conversely, a decrease in the constant prepayment rate and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement).

An increase in the pull-through rate utilized in the fair value measurement of the interest rate lock commitment derivative will result in positive fair value adjustments (and an increase in the fair value measurement.) Conversely, a decrease in the pull-through rate will result in a negative fair value adjustment (and a decrease in the fair value measurement.)

Management believes that the credit risk adjusted spread utilized in the fair value measurement of the junior subordinated debentures carried at fair value is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. The widening of the credit risk adjusted spread above the Company's contractual spreads has primarily contributed to the positive fair value adjustments. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of September 30, 2013, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments (and decrease the fair value measurement). Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments (and increase the fair value measurement).

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three and nine months ended September 30, 2013 and 2012.

(in thousands)

| Three months ended September 30, | Beginning Balance | Change included in earnings | Purchases and issuances | Sales and settlements | Ending Balance | Net change in unrealized gains or (losses) relating to items held at end of period |
|----------------------------------|-------------------|-----------------------------|-------------------------|-----------------------|----------------|--|
| | | | | | | |

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| | | | | | | | |
|-----------------------------------|----------|----------|-----------|---------|----------|----------|---|
| 2013 | | | | | | | |
| Mortgage servicing rights | \$38,192 | \$(411 |) \$4,072 | \$— | \$41,853 | \$746 | |
| Interest rate lock commitment | 638 | (638 |) 17,695 | (14,687 |) 3,008 | 3,008 | |
| Junior subordinated debentures | 86,159 | 1,533 | — | (974 |) 86,718 | 1,533 | |
| 2012 | | | | | | | |
| Mortgage servicing rights | \$22,513 | \$(3,666 |) \$5,642 | \$— | \$24,489 | \$(2,720 |) |
| Interest rate lock commitment | 2,286 | (2,286 |) 37,494 | (33,528 |) 3,966 | 3,966 | |
| Junior subordinated debentures | 83,993 | 1,592 | — | (1,047 |) 84,538 | 1,592 | |

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(in thousands)

| Nine months ended September 30, | Beginning Balance | Change included in earnings | Purchases and issuances | Sales and settlements | Ending Balance | Net change in unrealized gains or (losses) relating to items held at end of period |
|------------------------------------|----------------------|-----------------------------------|-------------------------------|--------------------------|-------------------|---|
| 2013 | | | | | | |
| Mortgage servicing rights | \$27,428 | \$(757) |) \$15,182 | \$— | \$41,853 | \$(755) |
| Interest rate lock commitment | 1,478 | (1,478) |) 52,192 | (49,184) |) 3,008 | 3,008 |
| Junior subordinated debentures | 85,081 | 4,563 | — | (2,926) |) 86,718 | 4,563 |
| 2012 | | | | | | |
| Mortgage servicing rights | \$18,184 | \$(5,618) |) \$11,923 | \$— | \$24,489 | \$(2,570) |
| Interest rate lock commitment | 1,749 | (1,749) |) 70,806 | (66,840) |) 3,966 | 3,966 |
| Junior subordinated debentures | 82,905 | 4,780 | — | (3,147) |) 84,538 | 4,780 |

Losses on mortgage servicing rights carried at fair value are recorded in mortgage banking revenue within other non-interest income. Gains (losses) on interest rate lock commitments carried at fair value are recorded in mortgage banking revenue within other non-interest income. Gains (losses) on junior subordinated debentures carried at fair value are recorded within other non-interest income. The contractual interest expense on the junior subordinated debentures is recorded on an accrual basis as interest on junior subordinated debentures within interest expense. Settlements related to the junior subordinated debentures represent the payment of accrued interest that is embedded in the fair value of these liabilities.

Additionally, from time to time, certain assets are measured at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment.

Fair Value of Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported upon.

(in thousands)

| | September 30, 2013 | | | |
|-------------------------------------|--------------------|---------|---------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Non-covered loans and leases | \$18,759 | \$— | \$— | \$18,759 |
| Non-covered other real estate owned | 81 | — | — | 81 |
| Covered other real estate owned | 2,778 | — | — | 2,778 |
| | \$21,618 | \$— | \$— | \$21,618 |

(in thousands)

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| | December 31, 2012 | | | |
|--|-------------------|---------|---------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investment securities, held to maturity | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | \$432 | \$— | \$— | \$432 |
| Non-covered loans and leases | 34,007 | — | — | 34,007 |
| Non-covered other real estate owned | 4,671 | — | — | 4,671 |
| Covered other real estate owned | 8,957 | — | — | 8,957 |
| | \$48,067 | \$— | \$— | \$48,067 |

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and nine months ended September 30, 2013 and 2012:

(in thousands)

| | Three months ended | | Nine months ended | |
|---|--------------------|---------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Non-covered loans and leases | \$5,663 | \$6,390 | \$18,126 | \$29,230 |
| Non-covered other real estate owned | 11 | 1,044 | 448 | 5,763 |
| Covered other real estate owned | 24 | 769 | 704 | 4,115 |
| Total loss from nonrecurring measurements | \$5,698 | \$8,203 | \$19,278 | \$39,108 |

The non-covered loans and leases amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

The non-covered and covered other real estate owned amount above represents impaired real estate that has been adjusted to fair value. Non-covered other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on non-covered other real estate owned for fair value adjustments based on the fair value of the real estate.

Fair Value Option

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale accounted for under the fair value option as of September 30, 2013 and December 31, 2012:

(in thousands)

September 30, 2013

December 31, 2012

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| | | Aggregate | Fair Value | | Aggregate | Fair Value |
|---------------------|-----------|-----------|----------------|-----------|-----------|----------------|
| | | Unpaid | Less Aggregate | | Unpaid | Less Aggregate |
| | Fair | Principal | Unpaid | Fair | Principal | Unpaid |
| | Value | Balance | Principal | Value | Balance | Principal |
| | | | Balance | | | Balance |
| Loans held for sale | \$113,993 | \$107,720 | \$6,273 | \$320,132 | \$302,760 | \$17,372 |

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Loans held for sale accounted for under the fair value option are measured initially at fair value with subsequent changes in fair value recognized in earnings. Gains and losses from such changes in fair value are reported as a component of mortgage banking revenue, net in the Consolidated Statements of Income. For the three and nine months ended September 30, 2013 the Company recorded a net increase of \$5.7 million and a net decrease of \$11.1 million, and for the three and nine months ended September 30, 2012, the Company recorded a net increase of \$5.3 million and \$11.3 million, respectively, representing the change in fair value reflected in earnings.

There were no nonaccrual mortgage loans held for sale or mortgage loans held for sale 90 days or more past due and still accruing interest as of September 30, 2013 and December 31, 2012, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as "anticipates," "expects," "believes," "estimates" and "intends" and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds, use of proceeds, availability of acquisition and growth opportunities, dividends, adequacy of our allowance for loan and lease losses, reserve for unfunded commitments and provision for loan and lease losses, performance of troubled debt restructurings, our commercial real estate portfolio and subsequent charge-offs, our covered loan portfolio and the FDIC indemnification asset, the benefits of the FinPac acquisition, and the proposed Merger with Sterling. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission (the "SEC") and the following factors that might cause actual results to differ materially from those presented:

- our ability to attract new deposits and loans and leases;
- demand for financial services in our market areas;
- competitive market pricing factors;
- deterioration in economic conditions that could result in increased loan and lease losses;
- risks associated with concentrations in real estate related loans;
- market interest rate volatility;
- compression of our net interest margin;
- stability of funding sources and continued availability of borrowings;
- changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;
- our ability to recruit and retain key management and staff;
- availability of, and competition for acquisition opportunities;
- risks associated with merger and acquisition integration;
- significant decline in the market value of the Company that could result in an impairment of goodwill;
- our ability to raise capital or incur debt on reasonable terms;
- regulatory limits on the Bank's ability to pay dividends to the Company;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and related rules and regulations on the Company's business operations and competitiveness, including the impact of executive compensation restrictions, which may affect the Company's ability to retain and recruit executives in competition with firms in other industries who do not operate under those restrictions;
- the impact of the Dodd-Frank Act on the Company's interest expense, FDIC deposit insurance assessments, regulatory compliance expenses, and interchange fee revenue, which includes a maximum permissible interchange fee that an issuer may receive for an electronic debit transaction, resulting in a decrease in interchange revenue on an average transaction; and
- the impact of "Basel III" capital rules that could require the Company to adjust the fair value, including the acceleration of losses, of the trust preferred securities.
- the possibility that the proposed Merger with Sterling does not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all;
- the effect on the trading price of our stock if the Merger with Sterling is not completed;

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benefits from the Merger may not be fully realized or may take longer to realize than expected, including as a result of changes in general economic and market conditions, interest rates, monetary policy, laws and regulations and their enforcement, and the degree of competition in the geographic and business areas in which we operate; Sterling's business may not be integrated into Umpqua's successfully, or such integration may take longer to accomplish than expected; the anticipated growth opportunities and cost savings from the Merger may not be fully realized or may take longer to realize than expected; operating costs, customer losses and business disruption following the Merger, including adverse developments in relationships with employees, may be greater than expected; and management time and effort will be diverted to the resolution of Merger-related issues.

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Forward-looking statements are made as of the date of this Form 10-Q. We do not intend to update these forward-looking statements. Readers should consider any forward-looking statements in light of this explanation, and we caution readers about relying on forward-looking statements.

General

Umpqua Holdings Corporation (referred to in this report as "we," "our," "Umpqua," and "the Company"), an Oregon corporation, is a financial holding company with two principal operating subsidiaries, Umpqua Bank (the "Bank") and Umpqua Investments, Inc. ("Umpqua Investments").

Headquartered in Roseburg, Oregon, the Bank is considered one of the most innovative community banks in the United States and has implemented a variety of retail marketing strategies to increase revenue and differentiate the company from its competition. The Bank combines a high touch customer experience with the sophisticated products and expertise of a commercial bank. The Bank provides a wide range of banking, wealth management, mortgage and other financial services to corporate, institutional and individual customers. The Bank also owns Financial Pacific Leasing, a national business-essential commercial equipment leasing company.

Along with its subsidiaries, the Company is subject to the regulations of state and federal agencies and undergoes periodic examinations by these regulatory agencies.

Umpqua Investments is a registered broker-dealer and investment advisor with offices in Portland, Lake Oswego, and Medford, Oregon, and Santa Rosa, California, and also offers products and services through certain Bank stores. The firm is one of the oldest investment companies in the Northwest and is actively engaged in the communities it serves. Umpqua Investments offers a full range of investment products and services including: stocks, fixed income securities (municipal, corporate, and government bonds, certificates of deposit, and money market instruments), mutual funds, annuities, options, retirement planning, money management services and life insurance.

Executive Overview

Significant items for the three and nine months ended September 30, 2013 were as follows:

Net earnings available to common shareholders per diluted common share were \$0.21 and \$0.65 for the three and nine months ended September 30, 2013, as compared to \$0.22 and \$0.65 for the three and nine months ended September 30, 2012. Operating earnings per diluted common share, defined as earnings available to common shareholders before net gains or losses on junior subordinated debentures carried at fair value, net of tax and merger related expenses, net of tax, divided by the same diluted share total used in determining diluted earnings per common share, were \$0.24 and \$0.69 for the three and nine months ended September 30, 2013, as compared to operating income per diluted common share of \$0.23 and \$0.67 for the three and nine months ended September 30, 2012. Operating income per diluted share is considered a "non-GAAP" financial measure. More information regarding

this measurement and reconciliation to the comparable GAAP measurement is provided under the heading Results of Operations - Overview below.

Net interest margin, on a tax equivalent basis was 4.22% and 3.91% for the three and nine months ended September 30, 2013, compared to 3.98% and 4.04% for the three and nine months ended September 30, 2012. The increase in net interest margin for the three months ended September 30, 2013 is primarily attributable to the high yielding coupon characteristics of the lease portfolio from the acquired operations of FinPac during the quarter. The

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decrease in net interest margin for the nine months ended September 30, 2013 resulted from the decline in non-covered loan and lease yields, the decline in investment yields, an increase in interest bearing cash, the decrease in average investment balances and in average covered loan balances, partially offset by the increase in average non-covered loans and leases outstanding and the decrease in the cost of interest bearing deposits. Excluding the impact of loan disposal gains from the covered loan portfolio and interest and fee reversals on non-accrual loans, our adjusted net interest margin was 4.16% and 3.81% for the three and nine months ended September 30, 2013, as compared to adjusted net interest margin of 3.76% and 3.90% for the three and nine months ended September 30, 2012. Adjusted net interest margin is considered a “non-GAAP” financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading Results of Operations - Overview below.

The provision for non-covered loan and lease losses was \$3.0 million and \$13.0 million for the three and nine months ended September 30, 2013, as compared to the \$7.1 million and \$16.9 million recognized for the three and nine months ended September 30, 2012. This resulted primarily from a decrease in net charge-offs as a result of continued reduction of non-performing loans.

Mortgage banking revenue was \$15.1 million and \$62.9 million for the three and nine months ended September 30, 2013, compared to \$24.3 million and \$53.1 million for the three and nine months ended September 30, 2012. Closed mortgage volume decreased 25% in the three months ended September 30, 2013, compared to the prior year same period, due to increasing mortgage rates. Closed mortgage volume increased 4% in the nine months ended September 30, 2013 compared to the prior year same period, due to increased purchase and refinancing activity.

Total gross non-covered loans and leases were \$7.2 billion as of September 30, 2013, an increase of \$547.8 million, or 8.2%, as compared to December 31, 2012. This increase is attributable to increased commercial real estate and residential mortgage production during the year as well as the acquired FinPac lease portfolio.

Total deposits were \$9.1 billion as of September 30, 2013, a decrease of \$312.0 million, or 3.3%, as compared to December 31, 2012. The decline resulted primarily from the transfer of balances to securities sold under agreements to repurchase and from anticipated run-off of higher priced money market, time and public deposits.

Total consolidated assets were \$11.6 billion as of September 30, 2013, compared to \$11.8 billion at December 31, 2012.

Non-covered, non-performing assets decreased to \$63.0 million, or 0.54% of total assets, as of September 30, 2013, as compared to \$88.1 million, or 0.75% of total assets, as of December 31, 2012. Non-covered, non-performing loans decreased to \$44.7 million, or 0.62% of total non-covered loans, as of September 30, 2013, as compared to \$71.0 million, or 1.06% of total non-covered loans as of December 31, 2012. Non-accrual loans have been written-down to their estimated net realizable values.

Net charge-offs on non-covered loans were \$4.2 million for the three months ended September 30, 2013, or 0.23% of average non-covered loans and leases (annualized), as compared to net charge-offs of \$5.9 million, or 0.38% of average non-covered loans and leases (annualized), for the three months ended September 30, 2012. Net charge-offs on non-covered loans were \$13.7 million for the nine months ended September 30, 2013, or 0.26% of average non-covered loans and leases (annualized), as compared to net charge-offs of \$25.1 million, or 0.55% of average non-covered loans and leases (annualized), for the nine months ended September 30, 2012.

Total risk based capital decreased to 14.7% as of September 30, 2013, compared to 16.5% as of December 31, 2012, due to the increase in risk-weighted assets as compared to December 31, 2012, as a result of the FinPac acquisition and organic loan growth.

Cash dividends declared in the third quarter of 2013 were \$0.15 per common share, compared to cash dividends declared in the third quarter of 2012 of \$0.09 per common share.

Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2012 included in the Form 10-K filed with the SEC on February 15, 2013. Not all of these critical accounting

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policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC's definition.

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management Allowance for Loan and Lease Losses ("ALLL") Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans and leases with similar risk rating. Credit loss factors may vary by region based on management's belief that there may ultimately be different credit loss rates experienced in each region.

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses.

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

The reserve for unfunded commitments ("RUC") is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management's evaluation of numerous factors. These factors include the quality of the current loan portfolio; the trend in the loan portfolio's risk ratings; current economic conditions; loan concentrations; loan growth rates; past-due and non-performing trends; evaluation of specific loss estimates for all significant problem loans; historical charge-off and recovery experience; and other pertinent information.

Management believes that the ALLL was adequate as of September 30, 2013. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges

to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 75% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses.

Covered Loans and FDIC Indemnification Asset

Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as “covered loans” and reported separately in our statements of financial condition. Acquired loans were aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flows were estimated for each pool. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The cash flows expected to be received over the life of the pool were estimated by management with the assistance of a third party valuation specialist. These

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cash flows were input into a FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”), compliant accounting loan system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions are periodically reassessed and updated within the accounting model to update our expectation of future cash flows. The excess of the cash flows expected to be collected over a pool’s carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows. Changes in the accretable yield are disclosed quarterly.

The Company has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC 805, Business Combinations (“ASC 805”). The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the carrying value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted or amortized into non-interest income over the life of the FDIC indemnification asset, which is maintained at the loan pool level.

Mortgage Servicing Rights (“MSR”)

The Company determines its classes of servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company measures its residential mortgage servicing assets at fair value and reports changes in fair value through earnings. Fair value adjustments encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are separately reported. Under the fair value method, the MSR is carried in the balance sheet at fair value and the changes in fair value are reported in earnings under the caption mortgage banking revenue in the period in which the change occurs.

Retained mortgage servicing rights are measured at fair values as of the date of sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available.

The expected life of the loan can vary from management's estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management's estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in the model, which we base on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights. Additional information is included in Note 7 of the Notes to Consolidated Financial Statements.

Valuation of Goodwill and Intangible Assets

At September 30, 2013, we had \$778.1 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstance indicate impairment potentially exists. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the

estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption may result in additional impairment of all, or some portion of, goodwill.

Stock-based Compensation

In accordance with FASB ASC 718, Stock Compensation, we recognize expense in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each grant is estimated as of the grant date using the Black-Scholes option-pricing model or a Monte Carlo simulation pricing model. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the pricing

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model, and ultimately, the expense that will be recognized over the life of the option. Additional information is included in Note 12 of the Notes to Consolidated Financial Statements.

Fair Value

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 16 of the Notes to Consolidated Financial Statements for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires an entity to offset, and present as a single net amount, a recognized eligible asset and a recognized eligible liability when it has an unconditional and legally enforceable right of setoff and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously. ASU No. 2011-11 further requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of ASU No. 2011-11 did not have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. Under ASU No. 2012-02, a company testing indefinite-lived intangibles for impairment now has the option to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with current guidance. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU No. 2012-02 did not have a material impact on the Company's consolidated financial statements.

In October 2012, the FASB issued ASU No. 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. ASU No. 2012-06 clarifies that when an entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs, as a result of a change in cash flows expected to be collected on the assets subject to indemnification, the reporting entity should subsequently account for the change in the measurement of the

indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The adoption of ASU No. 2012-06 did not have a material impact on the Company's consolidated financial statements.

In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU No. 2013-01 clarifies that ASU No. 2011-11 applies only to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement are no longer subject to the disclosure requirements in ASU No. 2011-11. The amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of ASU No. 2013-01 did not have a material impact on the Company's consolidated financial statements.

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In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present either on the face of the statement where net income is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The adoption of ASU No. 2013-02 did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU No. 2013-10 permits the use of the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge account purposes. The amendment is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU No. 2013-10 did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. No new recurring disclosures are required. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2013 and are to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of ASU No. 2013-11 is not expected to have a material impact on the Company's consolidated financial statements.

Results of Operations

Overview

For the three months ended September 30, 2013, net earnings available to common shareholders were \$23.3 million, or \$0.21 per diluted common share, as compared to net earnings available to common shareholders of \$25.0 million, or \$0.22 per diluted common share for the three months ended September 30, 2012. For the nine months ended September 30, 2013, net earnings available to common shareholders were \$72.5 million, or \$0.65 per diluted common share, as compared to net earnings available to common shareholders of \$73.4 million, or \$0.65 per diluted common share for the nine months ended September 30, 2012. The decrease in net earnings for the three months ended September 30, 2013 compared to the same period of the prior year is principally attributable to decreased non-interest income and increased non-interest expense, partially offset by increased net interest income and decreased provision for loan and lease losses. The decrease in net earnings for the nine months ended September 30, 2013 compared to the same period of the prior year is principally attributable to decreased net interest income and increased non-interest expense, partially offset by increased non-interest income and decreased provision for loan and lease losses.

Umpqua recognizes gains or losses on our junior subordinated debentures carried at fair value resulting from the estimated market credit risk adjusted spread and changes in interest rates that do not directly correlate with the Company's operating performance. Also, Umpqua incurs significant expenses related to the completion and integration of mergers and acquisitions. Additionally, we may recognize goodwill impairment losses that have no direct effect on the Company's or the Bank's cash balances, liquidity, or regulatory capital ratios. Lastly, Umpqua may recognize one-time bargain purchase gains on certain FDIC-assisted acquisitions that are not reflective of the

Umpqua's on-going earnings power. Accordingly, management believes that our operating results are best measured on a comparative basis excluding the impact of gains or losses on junior subordinated debentures measured at fair value, net of tax, merger-related expenses, net of tax, and other charges related to business combinations such as goodwill impairment charges or bargain purchase gains, net of tax. We define operating earnings as earnings available to common shareholders before gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains on acquisitions, net of tax, merger related expenses, net of tax, and goodwill impairment, and we calculate operating earnings per diluted share by dividing operating earnings by the same diluted share total used in determining diluted earnings per common share.

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The following table provides the reconciliation of earnings available to common shareholders (GAAP) to operating earnings (non-GAAP), and earnings per diluted common share (GAAP) to operating earnings per diluted share (non-GAAP) for the three and nine months ended September 30, 2013 and 2012:

Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings
(in thousands, except per share data)

| | Three months ended | | Nine months ended | |
|--|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net earnings available to common shareholders | \$23,281 | \$24,983 | \$72,515 | \$73,434 |
| Adjustments: | | | | |
| Net loss on junior subordinated debentures carried at fair value, net of tax | 332 | 332 | 986 | 989 |
| Merger-related expenses, net of tax | 2,914 | 51 | 4,318 | 203 |
| Operating earnings | \$26,527 | \$25,366 | \$77,819 | \$74,626 |
| Per diluted share: | | | | |
| Net earnings available to common shareholders | \$0.21 | \$0.22 | \$0.65 | \$0.65 |
| Adjustments: | | | | |
| Net loss on junior subordinated debentures carried at fair value, net of tax | — | 0.01 | 0.01 | 0.02 |
| Merger-related expenses, net of tax | 0.03 | — | 0.03 | — |
| Operating earnings | \$0.24 | \$0.23 | \$0.69 | \$0.67 |

Management believes adjusted net interest income and adjusted net interest margin are useful financial measures because they enable investors to evaluate the underlying growth or compression in these values excluding interest income adjustments related to credit quality. Management uses these measures to evaluate adjusted net interest income operating results exclusive of credit costs, in order to monitor our effectiveness in growing higher interest yielding assets and managing our cost of interest bearing liabilities over time. Adjusted net interest income is calculated as net interest income, adjusting tax exempt interest income to its taxable equivalent, adding back interest and fee reversals related to new non-accrual loans during the period, and deducting the interest income gains recognized from loan disposition activities within covered loan pools. Adjusted net interest margin is calculated by dividing annualized adjusted net interest income by a period's average interest earning assets. Adjusted net interest income and adjusted net interest margin are considered "non-GAAP" financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the Financial Statements (unaudited) in Item 1.

The following table presents a reconciliation of net interest income to adjusted net interest income and net interest margin to adjusted net interest margin for the three and nine months ended September 30, 2013 and 2012:

Reconciliation of Net Interest Income to Adjusted Net Interest Income and Net Interest Margin to Adjusted Net Interest Margin

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(in thousands, except per share data)

| | Three months ended | | Nine months ended | | |
|---|--------------------|--------------|-------------------|--------------|---|
| | September 30, | | September 30, | | |
| | 2013 | 2012 | 2013 | 2012 | |
| Net interest income - tax equivalent basis (1) | \$107,946 | \$103,204 | \$298,351 | \$308,875 | |
| Adjustments: | | | | | |
| Interest and fee reversals on non-accrual loans | 203 | 174 | 1,321 | 1,137 | |
| Covered loan disposal gains | (1,836) | (5,859) | (9,227) | (11,572) |) |
| Adjusted net interest income - tax equivalent basis (1) | \$106,313 | \$97,519 | \$290,445 | \$298,440 | |
| Average interest earning assets | \$10,136,677 | \$10,313,397 | \$10,201,559 | \$10,210,094 | |
| Net interest margin - consolidated (1) | 4.22 | % 3.98 | % 3.91 | % 4.04 | % |
| Adjusted net interest margin - consolidated (1) | 4.16 | % 3.76 | % 3.81 | % 3.90 | % |

(1) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately \$1.1 million and \$1.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$3.5 million and \$3.5 million for the nine months ended September 30, 2013 and 2012, respectively.

The following table presents the returns on average assets, average common shareholders' equity and average tangible common shareholders' equity for the three and nine months ended September 30, 2013 and 2012. For each of the periods presented, the table includes the calculated ratios based on reported net earnings available to common shareholders and operating income as shown in the table above. Our return on average common shareholders' equity is negatively impacted as the result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger and acquisition-related intangible assets, we believe it beneficial to also consider the return on average tangible common shareholders' equity. The return on average tangible common shareholders' equity is calculated by dividing net earnings available to common shareholders by average shareholders' common equity less average goodwill and intangible assets, net (excluding MSRs). The return on average tangible common shareholders' equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders' equity.

Return on Average Assets, Common Shareholders' Equity and Tangible Common Shareholders' Equity

(dollars in thousands)

| | Three months ended | | Nine months ended | | |
|--|--------------------|--------|-------------------|--------|---|
| | September 30, | | September 30, | | |
| | 2013 | 2012 | 2013 | 2012 | |
| Returns on average assets: | | | | | |
| Net earnings available to common shareholders | 0.81 | % 0.86 | % 0.85 | % 0.86 | % |
| Operating earnings | 0.92 | % 0.87 | % 0.91 | % 0.87 | % |
| Returns on average common shareholders' equity: | | | | | |
| Net earnings available to common shareholders | 5.36 | % 5.81 | % 5.61 | % 5.79 | % |
| Operating earnings | 6.11 | % 5.90 | % 6.02 | % 5.88 | % |
| Returns on average tangible common shareholders' equity: | | | | | |
| Net earnings available to common shareholders | 9.79 | % 9.60 | % 9.59 | % 9.62 | % |

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| | | | | | |
|--|-------------|-------------|-------------|-------------|---|
| Operating earnings | 11.15 | % 9.75 | % 10.29 | % 9.78 | % |
| Calculation of average common tangible shareholders' equity: | | | | | |
| Average common shareholders' equity | \$1,722,881 | \$1,709,270 | \$1,727,229 | \$1,694,706 | |
| Less: average goodwill and other intangible assets, net | (779,294) | (674,122) | (716,137) | (675,311) | |
| Average tangible common shareholders' equity | \$943,587 | \$1,035,148 | \$1,011,092 | \$1,019,395 | |

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Additionally, management believes tangible common equity and the tangible common equity ratio are meaningful measures of capital adequacy. Umpqua believes the exclusion of certain intangible assets in the computation of tangible common equity and tangible common equity ratio provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results and capital of the Company. Tangible common equity is calculated as total shareholders' equity less goodwill and other intangible assets, net (excluding MSRs). In addition, tangible assets are total assets less goodwill and other intangible assets, net (excluding MSRs). The tangible common equity ratio is calculated as tangible common shareholders' equity divided by tangible assets. The tangible common equity and tangible common equity ratio is considered a non-GAAP financial measure and should be viewed in conjunction with the total shareholders' equity and the total shareholders' equity ratio. The following table provides a reconciliation of ending shareholders' equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of September 30, 2013 and December 31, 2012:

Reconciliations of Total Shareholders' Equity to Tangible Common Shareholders' Equity and Total Assets to Tangible Assets

(dollars in thousands)

| | September 30, 2013 | December 31, 2012 | |
|---|-----------------------|----------------------|---|
| Total shareholders' equity | \$1,725,995 | \$1,724,039 | |
| Subtract: | | | |
| Goodwill and other intangible assets, net | 778,094 | 685,331 | |
| Tangible common shareholders' equity | \$947,901 | \$1,038,708 | |
| Total assets | \$11,569,297 | \$11,795,443 | |
| Subtract: | | | |
| Goodwill and other intangible assets, net | 778,094 | 685,331 | |
| Tangible assets | \$10,791,203 | \$11,110,112 | |
| Tangible common equity ratio | 8.78 | % 9.35 | % |

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although we believe these non-GAAP financial measure are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

Net Interest Income

Net interest income is the largest source of our operating income. Net interest income for the three months ended September 30, 2013 was \$106.8 million, an increase of \$4.8 million or 4.7% compared to the same period in 2012. Net interest income for the nine months ended September 30, 2013 was \$294.9 million, a decrease of \$10.5 million or 3.4% compared to the same period in 2012. The results for the three months ended September 30, 2013 as compared to the same period in 2012 are attributable to an increase in average non-covered loans and leases, a decrease in average interest-bearing liabilities and an increase in net interest margin, partially offset by a decrease in outstanding average covered loans and investment securities. The results for the nine months ended September 30, 2013 as compared to the same period in 2012 are attributable to a decrease in outstanding average covered loans and investment securities, and a decrease in net interest margin, partially offset by an increase in average non-covered loans and leases and a decrease in average interest-bearing liabilities.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 4.22% for the three months ended September 30, 2013, a increase of 24 basis points as compared to the same period in 2012. The net interest margin on a fully tax equivalent basis was 3.91% for the nine months ended September 30, 2013, a decrease of 13 basis points as compared to the same period in 2012. The increase in net interest margin for the three months ended September 30, 2013 as compared to the same period in the prior year primarily resulted from an increase in average non-covered loans and leases outstanding, the high yielding coupon characteristics of the lease portfolio from the acquired operations of FinPac, a decline in the cost of interest-bearing deposits, and a decrease in average interest-bearing liabilities, partially offset by a decline in non-covered loan and lease yields (excluding the impact of the FinPac acquired lease portfolio), the decrease in average covered loans outstanding, a decline in investment yields, and a decrease in loan disposal gains from the covered loan portfolio. The decrease in net interest margin for the nine months ended September 30, 2013 as compared to the same period in the prior year primarily resulted from a decline in non-covered loan yields, the decrease in average covered

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loans outstanding, a decline in investment yields, a decrease in loan disposal gains from the covered loan portfolio, and an increase in average interest bearing cash, partially offset by an increase in average non-covered loans and leases outstanding, a decline in the cost of interest-bearing deposits, and a decrease in average interest-bearing liabilities.

Loan disposal related activities within the covered loan portfolio, either through loans being paid off in full or transferred to other real estate owned (“OREO”), result in gains within covered loan interest income to the extent assets received in satisfaction of debt (such as cash or the net realizable value of OREO received) exceeds the allocated carrying value of the loan disposed of from the pool. Loan disposal activities contributed \$1.8 million of interest income for the three months ended September 30, 2013 compared to \$5.9 million of interest income during the three months ended September 30, 2012. Loan disposal activities contributed \$9.2 million of interest income for the nine months ended September 30, 2013 compared to \$11.6 million of interest income during the nine months ended September 30, 2012.

Net interest income for the three and nine months ended September 30, 2013 was negatively impacted by the \$0.2 million and \$1.3 million reversal of interest and fee income on non-covered, non-accrual loans, as compared to the \$0.2 million and \$1.1 million reversal of interest and fee income during the three and nine months ended September 30, 2012. Excluding the impact of covered loan disposal gains and interest and fee income reversals on non-covered, non-accrual loans, tax equivalent net interest margin would have been 4.16% and 3.81% for the three and nine months ended September 30, 2013 and 3.76% and 3.90% for the three and nine months ended September 30, 2012.

Adding to the increase in net interest margin in the current quarter as compared to the same period of the prior year is the continued reduction of the cost of interest-bearing liabilities, specifically interest-bearing deposits. The total cost of interest-bearing deposits for the three and nine months ended September 30, 2013 was 0.29% and 0.33%, representing a 14 and 13 basis point decrease compared to the three and nine months ended September 30, 2012.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds. The following tables present condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2013 and 2012:

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Average Rates and Balances

(dollars in thousands)

| | Three months ended September 30, 2013 | | | Three months ended September 30, 2012 | | | | |
|---|--|----------------------------------|-------------------------------|--|----------------------------------|-------------------------------|--|--|
| | Average Balance | Interest Income or Expense | Average Yields or Rates | Average Balance | Interest Income or Expense | Average Yields or Rates | | |
| INTEREST-EARNING ASSETS: | | | | | | | | |
| Non-covered loans and leases (1) | \$7,265,014 | \$93,706 | 5.12 % | \$6,375,998 | \$78,090 | 4.87 % | | |
| Covered loans, net | 402,403 | 11,837 | 11.67 % | 535,816 | 20,325 | 15.09 % | | |
| Taxable securities | 1,788,567 | 7,933 | 1.77 % | 2,630,018 | 13,060 | 1.99 % | | |
| Non-taxable securities (2) | 237,545 | 3,337 | 5.62 % | 262,323 | 3,466 | 5.28 % | | |
| Temporary investments and interest-bearing deposits | 443,148 | 284 | 0.25 % | 509,242 | 331 | 0.26 % | | |
| Total interest earning assets | 10,136,677 | 117,097 | 4.58 % | 10,313,397 | 115,272 | 4.45 % | | |
| Allowance for non-covered loan and lease losses | (86,246) | | | (83,331) | | | | |
| Other assets | 1,410,298 | | | 1,328,835 | | | | |
| Total assets | \$11,460,729 | | | \$11,558,901 | | | | |
| INTEREST-BEARING LIABILITIES: | | | | | | | | |
| Interest-bearing checking and savings accounts | \$4,958,954 | \$1,123 | 0.09 % | \$4,996,353 | \$2,354 | 0.19 % | | |
| Time deposits | 1,732,625 | 3,722 | 0.85 % | 2,090,269 | 5,269 | 1.00 % | | |
| Federal funds purchased and repurchase agreements | 188,367 | 35 | 0.07 % | 149,255 | 73 | 0.19 % | | |
| Term debt | 252,412 | 2,338 | 3.67 % | 254,349 | 2,335 | 3.65 % | | |
| Junior subordinated debentures | 188,102 | 1,933 | 4.08 % | 186,313 | 2,037 | 4.35 % | | |
| Total interest-bearing liabilities | 7,320,460 | 9,151 | 0.50 % | 7,676,539 | 12,068 | 0.63 % | | |
| Non-interest-bearing deposits | 2,317,932 | | | 2,075,097 | | | | |
| Other liabilities | 99,456 | | | 97,995 | | | | |
| Total liabilities | 9,737,848 | | | 9,849,631 | | | | |
| Common equity | 1,722,881 | | | 1,709,270 | | | | |
| Total liabilities and shareholders' equity | \$11,460,729 | | | \$11,558,901 | | | | |
| NET INTEREST INCOME | | \$107,946 | | | \$103,204 | | | |
| NET INTEREST SPREAD | | | 4.08 % | | | 3.82 % | | |
| AVERAGE YIELD ON EARNING ASSETS (1), (2) | | | 4.58 % | | | 4.45 % | | |
| INTEREST EXPENSE TO EARNING ASSETS | | | 0.36 % | | | 0.47 % | | |
| NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2) | | | 4.22 % | | | 3.98 % | | |

(1) Non-covered non-accrual loans, leases, and mortgage loans held for sale are included in the average balance.

Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment (2) was an addition to recorded income of approximately \$1.1 million and \$1.2 million for the three months ended September 30, 2013 and 2012, respectively.

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| | Nine months ended September 30, 2013 | | | Nine months ended September 30, 2012 | | | |
|---|---|----------------------------------|-------------------------------|---|----------------------------------|-------------------------------|--|
| | Average Balance | Interest Income or Expense | Average Yields or Rates | Average Balance | Interest Income or Expense | Average Yields or Rates | |
| INTEREST-EARNING ASSETS: | | | | | | | |
| Non-covered loans and leases (1) | \$6,988,343 | \$250,685 | 4.80 % | \$6,200,326 | \$233,386 | 5.03 % | |
| Covered loans, net | 429,909 | 41,167 | 12.80 % | 572,481 | 54,603 | 12.74 % | |
| Taxable securities | 2,049,630 | 24,794 | 1.61 % | 2,791,915 | 47,749 | 2.28 % | |
| Non-taxable securities (2) | 250,535 | 10,185 | 5.42 % | 256,510 | 10,338 | 5.37 % | |
| Temporary investments and interest bearing deposits | 483,142 | 937 | 0.26 % | 388,862 | 736 | 0.25 % | |
| Total interest earning assets | 10,201,559 | 327,768 | 4.30 % | 10,210,094 | 346,812 | 4.54 % | |
| Allowance for non-covered loan and lease losses | (85,758) | | | (86,999) | | | |
| Other assets | 1,352,547 | | | 1,330,749 | | | |
| Total assets | \$11,468,348 | | | \$11,453,844 | | | |
| INTEREST-BEARING LIABILITIES: | | | | | | | |
| Interest bearing checking and savings accounts | \$4,941,582 | \$3,581 | 0.10 % | \$4,989,233 | \$7,815 | 0.21 % | |
| Time deposits | 1,868,414 | 13,006 | 0.93 % | 2,139,476 | 16,822 | 1.05 % | |
| Federal funds purchased and repurchase agreements | 162,170 | 99 | 0.08 % | 136,593 | 232 | 0.23 % | |
| Term debt | 252,826 | 6,916 | 3.66 % | 254,862 | 6,944 | 3.64 % | |
| Junior subordinated debentures | 189,457 | 5,815 | 4.10 % | 185,819 | 6,124 | 4.40 % | |
| Total interest-bearing liabilities | 7,414,449 | 29,417 | 0.53 % | 7,705,983 | 37,937 | 0.66 % | |
| Non-interest-bearing deposits | 2,228,530 | | | 1,968,153 | | | |
| Other liabilities | 98,140 | | | 85,002 | | | |
| Total liabilities | 9,741,119 | | | 9,759,138 | | | |
| Common equity | 1,727,229 | | | 1,694,706 | | | |
| Total liabilities and shareholders' equity | \$11,468,348 | | | \$11,453,844 | | | |
| NET INTEREST INCOME | | \$298,351 | | | \$308,875 | | |
| NET INTEREST SPREAD | | | 3.77 % | | | 3.88 % | |
| AVERAGE YIELD ON EARNING ASSETS (1), (2) | | | 4.30 % | | | 4.54 % | |
| INTEREST EXPENSE TO EARNING ASSETS | | | 0.39 % | | | 0.50 % | |
| NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2) | | | 3.91 % | | | 4.04 % | |

(1) Non-covered non-accrual loans, leases, and mortgage loans held for sale are included in the average balance.

Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment (2) was an addition to recorded income of approximately \$3.5 million and \$3.5 million for the nine months ended September 30, 2013 and 2012, respectively.

The following tables sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for the three and nine months ended September 30, 2013 as compared to the same periods in 2012. Changes in tax equivalent interest income and expense,

which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

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(in thousands)

| | Three months ended September 30, 2013 compared to 2012 | | |
|---|---|----------|----------|
| | Increase (decrease) in interest income and expense due to changes in | | |
| | Volume | Rate | Total |
| INTEREST-EARNING ASSETS: | | | |
| Non-covered loans and leases | \$11,307 | \$4,309 | \$15,616 |
| Covered loans | (4,463 |) (4,025 |) (8,488 |
| Taxable securities | (3,844 |) (1,283 |) (5,127 |
| Non-taxable securities (1) | (340 |) 211 | (129 |
| Temporary investments and interest bearing deposits | (42 |) (5 |) (47 |
| Total (1) | 2,618 | (793 |) 1,825 |
| INTEREST-BEARING LIABILITIES: | | | |
| Interest bearing checking and savings accounts | (17 |) (1,214 |) (1,231 |
| Time deposits | (830 |) (717 |) (1,547 |
| Repurchase agreements and federal funds | 15 | (53 |) (38 |
| Term debt | (18 |) 21 | 3 |
| Junior subordinated debentures | 19 | (123 |) (104 |
| Total | (831 |) (2,086 |) (2,917 |
| Net increase (decrease) in net interest income (1) | \$3,449 | \$1,293 | \$4,742 |

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 35% tax rate.

(in thousands)

| | Nine months ended September 30, 2013 compared to 2012 | | |
|---|---|-----------|-------------|
| | Increase (decrease) in interest income and expense due to changes in | | |
| | Volume | Rate | Total |
| INTEREST-EARNING ASSETS: | | | |
| Non-covered loans and leases | \$28,644 | \$(11,345 |) \$17,299 |
| Covered loans | (13,651 |) 215 | (13,436 |
| Taxable securities | (10,926 |) (12,029 |) (22,955 |
| Non-taxable securities (1) | (242 |) 89 | (153 |
| Temporary investments and interest bearing deposits | 183 | 18 | 201 |
| Total (1) | 4,008 | (23,052 |) (19,044 |
| INTEREST-BEARING LIABILITIES: | | | |
| Interest bearing checking and savings accounts | (74 |) (4,160 |) (4,234 |
| Time deposits | (2,003 |) (1,813 |) (3,816 |
| Repurchase agreements and federal funds | 38 | (171 |) (133 |
| Term debt | (56 |) 28 | (28 |
| Junior subordinated debentures | 118 | (427 |) (309 |
| Total | (1,977 |) (6,543 |) (8,520 |
| Net increase (decrease) in net interest income (1) | \$5,985 | \$(16,509 |) \$(10,524 |

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 35% tax rate.

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Provision for Loan and Lease Losses

The provision for non-covered loan and lease losses was \$3.0 million and \$13.0 million and for the three and nine months ended September 30, 2013, as compared to \$7.1 million and \$16.9 million for the same periods in 2012. As an annualized percentage of average outstanding non-covered loans and leases, the provision for loan and lease losses recorded for the three and nine months ended September 30, 2013 was 0.17% and 0.25% as compared to 0.46% and 0.37% in the same periods in 2012.

The decrease in the provision for loan and lease losses in the three and nine months ended September 30, 2013 as compared to the same periods in 2012 is principally attributable to a decrease in net charge-offs as a result of the continued resolution of non-performing loans.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Therefore, the non-covered, non-accrual loans of \$39.8 million as of September 30, 2013 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

The provision for non-covered loan and lease losses is based on management's evaluation of inherent risks in the loan portfolio and a corresponding analysis of the allowance for non-covered loan and lease losses. Additional discussion on loan quality and the allowance for non-covered loan and lease losses is provided under the heading Asset Quality and Non-Performing Assets below.

The recapture of provision for covered loan losses was \$1.9 million and \$4.7 million for the three and nine months ended September 30, 2013, as compared to the provision for covered loan losses of \$2.9 million and \$4.3 million for the same periods in 2012. Recapture of provision results from improvements in the amount and the timing of expected cash flows on the acquired loans compared to those previously estimated and charge-offs of unpaid principal balance, as measured on a pool basis. Provisions for covered loans are recognized subsequent to acquisition to the extent it is probable we will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when determined losses of unpaid principal incurred exceed previous loss expectations to-date, or future cash flows previously expected to be collectible are no longer probable of collection. Provisions for covered loan losses, including amounts advanced subsequent to acquisition, are not reflected in the allowance for non-covered loan losses, rather as a valuation allowance netted against the carrying value of the covered loan balance accounted for under ASC 310-30, in accordance with applicable guidance.

Non-Interest Income

Non-interest income for the three months ended September 30, 2013 was \$26.1 million, a decrease of \$7.5 million, or 22.4%, as compared to the same period in 2012. Non-interest income for the nine months ended September 30, 2013 was \$94.7 million, an increase of \$4.8 million, or 5.4%, as compared to the same period in 2012. The following table presents the key components of non-interest income for the three and nine months ended September 30, 2013 and 2012:

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Non-Interest Income

(in thousands)

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|--|-------------------------------------|----------|------------------|-------------------|------------------------------------|-----------|------------------|-------------------|
| | 2013 | 2012 | Change Amount | Change Percent | 2013 | 2012 | Change Amount | Change Percent |
| Service charges on deposit accounts | \$8,374 | \$7,122 | \$1,252 | 18 % | \$22,844 | \$20,978 | \$1,866 | 9 % |
| Brokerage commissions and fees | 3,854 | 3,186 | 668 | 21 % | 11,152 | 9,662 | 1,490 | 15 % |
| Mortgage banking revenue, net | 15,071 | 24,346 | (9,275) | (38)% | 62,928 | 53,069 | 9,859 | 19 % |
| Gain on investment securities, net | 3 | 21 | (18) | (86)% | 18 | 1,199 | (1,181) | (98)% |
| Loss on junior subordinated debentures carried at fair value | (554) | (554) | — | — % | (1,643) | (1,649) | 6 | — % |
| Change in FDIC indemnification asset | (6,474) | (4,759) | (1,715) | 36 % | (19,841) | (10,644) | (9,197) | 86 % |
| Other income | 5,870 | 4,317 | 1,553 | 36 % | 19,198 | 17,227 | 1,971 | 11 % |
| Total | \$26,144 | \$33,679 | \$(7,535) | (22)% | \$94,656 | \$89,842 | \$4,814 | 5 % |

The increase in deposit service charges in the three and nine months ended September 30, 2013 compared to the same periods in 2012 is primarily the result of the acquisition of Circle Bank ("Circle") in the fourth quarter of 2012 and related to our newly expanded business and consumer checking account options.

Mortgage banking revenue decreased for the three months ended September 30, 2013 due to a decline in purchase and refinancing activity due to increased mortgage interest rates compared to the same period of the prior year. The increase for the nine months ended September 30, 2013 is due to year over year increased purchase and refinancing activity in the first half of the year. Closed mortgage volume for the three and nine months ended September 30, 2013 was \$463.0 million and \$1.6 billion representing a decrease of 25.5% and an increase of 3.9% compared to the same periods of the prior year.

For the three and nine months ended September 30, 2013 we recorded a loss of \$554,000 and \$1.6 million, as compared to the loss of \$554,000 and \$1.6 million for the three and nine months ended September 30, 2012, in the change of fair value on the junior subordinated debentures recorded at fair value. Additional information on the junior subordinated debentures carried at fair value is included in Note 9 of the Notes to Condensed Consolidated Financial Statements and under the heading Junior Subordinated Debentures.

The change in FDIC indemnification asset represents a change in cash flows expected to be recoverable under the loss-share agreements entered into with the FDIC in connection with FDIC-assisted acquisitions.

Other income for the three months ended September 30, 2013 compared to the same period in the prior year increased primarily due to FinPac operations of \$795,000 and increased debt capital market revenue (related to an interest rate swap program with commercial banking customers to facilitate their risk management strategies) of \$285,000. Other income for the nine months ended September 30, 2013 compared to the same period in the prior year increased primarily due to gain on sale of loans of \$2.7 million and due to the acquisition of FinPac of \$795,000, partially offset by a reduction in debt capital market revenue of \$1.1 million.

Non-Interest Expense

Non-interest expense for the three months ended September 30, 2013 was \$95.6 million, an increase of \$8.6 million, or 9.9%, as compared to the same period in 2012. Non-interest expense for the nine months ended September 30, 2013 was \$269.3 million, an increase of \$7.7 million, or 2.9%, as compared to the same period in 2012. The following table presents the key elements of non-interest expense for the three and nine months ended September 30, 2013 and 2012:

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Non-Interest Expense

(in thousands)

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|--|-------------------------------------|----------|------------------|-------------------|------------------------------------|-----------|------------------|-------------------|
| | 2013 | 2012 | Change Amount | Change Percent | 2013 | 2012 | Change Amount | Change Percent |
| Salaries and employee benefits | \$53,699 | \$49,543 | \$4,156 | 8 % | \$157,271 | \$146,615 | \$10,656 | 7 % |
| Net occupancy and equipment | 16,019 | 13,441 | 2,578 | 19 % | 45,813 | 40,519 | 5,294 | 13 % |
| Communications | 2,772 | 2,740 | 32 | 1 % | 8,802 | 8,527 | 275 | 3 % |
| Marketing | 1,596 | 1,104 | 492 | 45 % | 3,753 | 3,855 | (102) | (3) % |
| Services | 6,445 | 5,910 | 535 | 9 % | 18,339 | 18,703 | (364) | (2) % |
| Supplies | 742 | 627 | 115 | 18 % | 2,120 | 1,936 | 184 | 10 % |
| FDIC assessments | 1,709 | 1,699 | 10 | 1 % | 5,032 | 5,553 | (521) | (9) % |
| Net (gain) loss on non-covered other real estate owned | (27) | 2,168 | (2,195) | (101) % | (303) | 6,244 | (6,547) | (105) % |
| Net (gain) loss on covered other real estate owned | (68) | 461 | (529) | (115) % | 154 | 3,084 | (2,930) | (95) % |
| Intangible amortization | 1,186 | 1,189 | (3) | — % | 3,595 | 3,612 | (17) | — % |
| Merger related expenses | 4,856 | 85 | 4,771 | NM | 7,197 | 338 | 6,859 | NM |
| Other expenses | 6,675 | 8,007 | (1,332) | (17) % | 17,524 | 22,620 | (5,096) | (23) % |
| Total | \$95,604 | \$86,974 | \$8,630 | 10 % | \$269,297 | \$261,606 | \$7,691 | 3 % |

NM - not meaningful

Salaries and employee benefits costs increased \$4.2 million in the three months ended September 30, 2013, as compared to the same period prior year. Salaries and employee benefits costs increased \$10.7 million in the nine months ended September 30, 2013, as compared to the same period prior year. For both periods, the increase primarily relates to an overall increase of 184 full-time equivalent employees, which includes 39 employees associated with the Circle acquisition and 116 employees associated with the FinPac acquisition (since the July 1, 2013 acquisition date).

Net occupancy and equipment expense increased \$2.6 million for the three months ended September 30, 2013, and \$5.3 million for the nine months ended September 30, 2013 as compared to the same periods in the prior year as a result of the addition of 13 stores, compared to the same period prior year, including 6 new locations from the Circle acquisition, and \$422,000 in occupancy and equipment cost related to FinPac subsequent to acquisition.

FDIC assessments decreased for the nine months ended September 30, 2013 as compared to the same periods of the prior year primarily as a result of a decrease in the assessment rate, partially offset by an increase in the assessment base.

In the three and nine months ended September 30, 2013, the Company recognized a net gain (which includes gains on sale and valuation adjustments) on non-covered other real estate owned ("OREO") properties of \$27,000 and \$303,000, as compared to a net loss (which includes loss on sale and valuation adjustments) on non-covered OREO properties of \$2.2 million and \$6.2 million in the same periods a year ago. Included within the results for the three and nine months ended September 30, 2013, the Company recognized a net gain (which includes gains on sale and

valuation adjustments) on covered OREO properties of \$68,000 and a net loss of \$154,000 as compared to net losses (which includes gains on sale and valuation adjustments) on covered OREO properties of \$461,000 and \$3.1 million in the same periods a year ago. This is primarily the result of improving real estate values, allowing for better realization of market values of existing OREO properties.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. The merger-related expense incurred in 2013 relate to the acquisition of Circle in the fourth quarter of 2012, the acquisition of FinPac on July 1, 2013, and merger and acquisition activities related to the proposed merger with Sterling.

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Classification of expenses as merger-related is done in accordance with the provisions of a written policy approved by our Board of Directors.

Other expenses decreased \$1.3 million and \$5.1 million for the three and nine months ended September 30, 2013 as compared to the same periods in the prior year primarily as a result of a decrease in loan and OREO workout related costs and a decrease in the provision for unfunded commitments, partially offset by an increase due to FinPac operations and an FDIC loss sharing claw back liability expense recorded due to better than expected performance of the Evergreen FDIC assisted acquisition.

Income Taxes

Our consolidated effective tax rate as a percentage of pre-tax income for the three and nine months ended September 30, 2013 was 35.2% and 34.7% as compared to 35.1% and 34.3% for the three and nine months ended September 30, 2012. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 7.1% (net of the federal tax benefit) principally because of the relative amount of income we earn in each state jurisdiction, non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities and tax credits arising from low income housing investments.

FINANCIAL CONDITION

Investment Securities

Trading securities consist of securities held in inventory by Umpqua Investments for sale to its clients and securities invested in trust for the benefit of certain executives or former employees of acquired institutions as required by agreements. Trading securities were \$4.0 million at September 30, 2013, as compared to \$3.7 million at December 31, 2012. This increase is principally attributable to an increase in Umpqua Investments' inventory of trading securities.

Investment securities available for sale were \$1.9 billion as of September 30, 2013 compared to \$2.6 billion at December 31, 2012. Paydowns of \$702.9 million, amortization of net purchase price premiums of \$28.0 million and a decrease in fair value of investments securities available for sale of \$35.4 million were partially offset by purchases of \$51.2 million of investment securities available for sale.

Investment securities held to maturity were \$5.8 million as of September 30, 2013 as compared to holdings of \$4.5 million at December 31, 2012. The change primarily relates to purchases of \$2.1 million partially offset by paydowns and maturities of investment securities held to maturity of \$1.1 million.

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of September 30, 2013 and December 31, 2012:

Investment Securities Composition

(dollars in thousands)

| | Investment Securities Available for Sale | | | | | |
|--|--|----|-------------------|----|--|---|
| | September 30, 2013 | | December 31, 2012 | | | |
| | Fair Value | % | Fair Value | % | | % |
| U.S. Treasury and agencies | \$278 | — | % \$45,820 | 2 | | % |
| Obligations of states and political subdivisions | 240,531 | 13 | % 263,725 | 10 | | % |
| | 1,667,144 | 87 | % 2,313,376 | 88 | | % |

| | | | | | | |
|--|-------------|-----|---------------|-----|--|---|
| Residential mortgage-backed securities and collateralized mortgage obligations | | | | | | |
| Other debt securities | 134 | — | 222 | — | | |
| Investments in mutual funds and other equity securities | 1,995 | — | 2,086 | — | | |
| Total | \$1,910,082 | 100 | % \$2,625,229 | 100 | | % |

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| | Investment Securities Held to Maturity | | | | | |
|--|--|-----|---|-------------------|-----|---|
| | September 30, 2013 | | | December 31, 2012 | | |
| | Amortized | | | Amortized | | |
| | Cost | % | | Cost | % | |
| Obligations of states and political subdivisions | \$— | — | % | \$595 | 13 | % |
| Residential mortgage-backed securities and collateralized mortgage obligations | 5,766 | 100 | % | 3,946 | 87 | % |
| Total | \$5,766 | 100 | % | \$4,541 | 100 | % |

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment (“OTTI”) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI.

The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (“OCI”). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is reevaluated according to the procedures described above.

Gross unrealized losses in the available for sale investment portfolio was \$22.0 million at September 30, 2013. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of \$19.9 million. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral. Additional information about the investment portfolio is provided in Note 3 of the Notes to Condensed Consolidated Financial Statements.

Restricted Equity Securities

Restricted equity securities were \$31.4 million at September 30, 2013 and \$33.4 million at December 31, 2012. The decrease of \$2.0 million is attributable to stock redemptions by the Federal Home Loan Banks (“FHLB”) of San Francisco and Seattle during the period. Of the \$31.4 million at September 30, 2013, \$30.2 million represent the Bank’s investment in the FHLBs of Seattle and San Francisco. The remaining restricted equity securities represent investments in Pacific Coast Bankers’ Bancshares stock. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be

purchased and redeemed at par.

In September 2012, the FHLB of Seattle was notified by the Federal Housing Finance Agency (“Finance Agency”) that it is now classified as “adequately capitalized” as compared to the prior classification of “undercapitalized.” Under Finance Agency regulations, the FHLB of Seattle may repurchase excess capital stock under certain conditions; however it may not redeem stock or pay a dividend without Finance Agency approval.

Management periodically evaluates FHLB stock for other-than-temporary or permanent impairment. Management’s determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The Company has determined there is not an other-than-temporary impairment on the FHLB stock investment as of September 30, 2013.

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Loans and Leases

Non-Covered Loans and Leases

Total non-covered loans and leases outstanding at September 30, 2013 were \$7.2 billion, an increase of \$547.8 million as compared to year-end 2012. This increase is principally attributable to net loan and lease originations of \$352.4 million, leases acquired in the FinPac acquisition of \$264.3 million, and covered loans transferred to non-covered loans and leases of \$13.4 million, partially offset by charge-offs of \$19.6 million, transfers to other real estate owned of \$14.7 million, and non-covered loans sold of \$60.3 million during the period. The following table presents the concentration distribution of our non-covered loan portfolio at September 30, 2013 and December 31, 2012.

Non-Covered Loan Concentrations

(dollars in thousands)

| | September 30, 2013 | | December 31, 2012 | | |
|----------------------------|--------------------|------------|-------------------|------------|----|
| | Amount | Percentage | Amount | Percentage | |
| Commercial real estate | | | | | |
| Term & multifamily | \$4,005,983 | 55.4 | % \$3,938,443 | 59.0 | % |
| Construction & development | 247,809 | 3.4 | % 202,118 | 3.0 | % |
| Residential development | 78,998 | 1.1 | % 57,209 | 0.9 | % |
| Commercial | | | | | |
| Term | 769,173 | 10.6 | % 797,802 | 11.9 | % |
| LOC & other | 1,283,129 | 17.8 | % 923,328 | 13.8 | % |
| Residential | | | | | |
| Mortgage | 550,200 | 7.6 | % 476,579 | 7.1 | % |
| Home equity loans & lines | 256,202 | 3.5 | % 260,797 | 3.9 | % |
| Consumer & other | 43,621 | 0.7 | % 37,327 | 0.6 | % |
| Deferred loan fees, net | (6,211) | (0.1) |)% (12,523) | (0.2) |)% |
| Total | \$7,228,904 | 100.0 | % \$6,681,080 | 100.0 | % |

Covered Loans

Total covered loans outstanding at September 30, 2013 were \$397.1 million, a decrease of \$80.0 million as compared to year-end 2012. This decrease is principally attributable to net loan paydowns and maturities of \$68.8 million and transfers of covered loans to non-covered loans and leases of \$13.4 million. The following table presents the concentration distribution of our covered loan portfolio at September 30, 2013 and December 31, 2012.

Covered Loan Concentrations

(dollars in thousands)

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| | September 30, 2013 | | December 31, 2012 | | |
|-----------------------------|--------------------|------------|-------------------|------------|---|
| | Amount | Percentage | Amount | Percentage | |
| Commercial real estate | | | | | |
| Term & multifamily | \$315,429 | 77.1 | % \$378,009 | 76.4 | % |
| Construction & development | 7,931 | 1.9 | % 11,711 | 2.4 | % |
| Residential development | 8,536 | 2.1 | % 9,794 | 2.0 | % |
| Commercial | | | | | |
| Term | 16,823 | 4.1 | % 23,524 | 4.7 | % |
| LOC & other | 11,518 | 2.8 | % 14,997 | 3.0 | % |
| Residential | | | | | |
| Mortgage | 23,304 | 5.7 | % 27,825 | 5.6 | % |
| Home equity loans & lines | 20,697 | 5.1 | % 23,442 | 4.7 | % |
| Consumer & other | 4,763 | 1.2 | % 6,051 | 1.2 | % |
| Total | 409,001 | 100.0 | % 495,353 | 100.0 | % |
| Allowance for covered loans | (11,918) | | (18,275) | | |
| Total | \$397,083 | | \$477,078 | | |

The covered loans are subject to loss-sharing agreements with the Federal Deposit Insurance Corporation (the "FDIC"). Under the terms of the Evergreen Bank ("Evergreen") acquisition loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first \$90.0 million on covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding \$90.0 million, except for the Bank will incur losses up to \$30.2 million before the loss-sharing will commence. As of September 30, 2013, losses have exceeded \$30.2 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Under the terms of the Rainier Pacific Bank loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first \$95.0 million of losses on covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding \$95.0 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Under the terms of the Nevada Security Bank loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on all covered assets. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Discussion of and tables related to the covered loan segment is provided under the heading Asset Quality and Non-Performing Assets.

Asset Quality and Non-Performing Assets

Non-Covered Loans and Leases

Non-covered, non-performing loans, which include non-covered, non-accrual loans and non-covered accruing loans past due over 90 days, totaled \$44.7 million or 0.62% of total non-covered loans as of September 30, 2013, as compared to \$71.0 million, or 1.06% of total non-covered loans, at December 31, 2012. Non-covered, non-performing assets, which include non-covered, non-performing loans and non-covered, foreclosed real estate i.e. OREO, totaled \$63.0 million, or 0.54% of total assets as of September 30, 2013 compared with \$88.1 million, or 0.75% of total assets as of December 31, 2012. The decrease in non-performing assets in 2013 is attributable to the improving economic environment, an improvement in real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio.

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A loan is considered impaired when, based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when non-covered loans are identified as impaired they are moved to our Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discount cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we will use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every 12 months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac's or the Bank's Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services Group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Bank's ALLL Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

Non-covered loans are classified as non-accrual when collection of principal or interest is doubtful—generally if they are past due as to maturity or payment of principal or interest by 90 days or more—unless such non-covered loans are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for non-accrual status. Non-covered loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain.

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess whether a lower price reflects the market value of the property and would enable us to sell the property. In addition, we update appraisals on other real estate owned property six to 12 months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on a) updated appraisals received during the period, or b) management's authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan moving to other real estate owned. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan or market value of the property less expected selling costs. Non-covered other real estate owned at September 30, 2013 totaled \$18.2 million and consisted of 21 properties.

Non-covered loans are reported as restructured when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

The Bank has written down impaired, non-covered non-accrual loans as of September 30, 2013 to their estimated net realizable value and expects resolution with no additional material loss, absent further decline in market prices.

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The following table summarizes our non-covered non-performing assets and restructured loans as of September 30, 2013 and December 31, 2012:

Non-Covered Non-Performing Assets

(in thousands)

| | September 30, 2013 | December 31, 2012 | | |
|--|-----------------------|----------------------|--|---|
| Non-covered loans on non-accrual status | \$39,805 | \$66,736 | | |
| Non-covered loans past due 90 days or more and accruing | 4,936 | 4,232 | | |
| Total non-covered non-performing loans | 44,741 | 70,968 | | |
| Non-covered other real estate owned | 18,249 | 17,138 | | |
| Total non-covered non-performing assets | \$62,990 | \$88,106 | | |
| Restructured loans (1) | \$69,497 | \$70,602 | | |
| Allowance for non-covered loan and lease losses | \$84,694 | \$85,391 | | |
| Reserve for unfunded commitments | 1,375 | 1,223 | | |
| Allowance for non-covered credit losses | \$86,069 | \$86,614 | | |
| Asset quality ratios: | | | | |
| Non-covered non-performing assets to total assets | 0.54 | % 0.75 | | % |
| Non-covered non-performing loans and leases to total non-covered loans and leases | 0.62 | % 1.06 | | % |
| Allowance for non-covered loan and leases losses to total non-covered loans and leases | 1.17 | % 1.28 | | % |
| Allowance for non-covered credit losses to total non-covered loans and leases | 1.19 | % 1.30 | | % |
| Allowance for non-covered credit losses to total non-covered non-performing loans and leases | 192 | % 122 | | % |

(1) Represents accruing restructured non-covered loans performing according to their restructured terms.

The following tables summarize our non-covered non-performing assets by loan type and region as of September 30, 2013 and December 31, 2012:

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Non-Covered Non-Performing Assets by Type and Region

(in thousands)

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| | September 30, 2013 | | | | | | |
|---|--------------------|---------------------|--------------------|------------------------|-----------------------|---------------------------|----------|
| | Washington | Northwest Oregon | Southern Oregon | Northern California | Central California | Greater Bay California | Total |
| Loans and leases on non-accrual status: | | | | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$— | \$5,020 | \$3,487 | \$2,327 | \$2,059 | \$5,636 | \$18,529 |
| Construction & development | — | 5,130 | — | — | — | — | 5,130 |
| Residential development | — | 2,871 | — | — | — | — | 2,871 |
| Commercial | | | | | | | |
| Term | — | 7,543 | 214 | 2,289 | 135 | 353 | 10,534 |
| LOC & other | 2,105 | 636 | — | — | — | — | 2,741 |
| Residential | | | | | | | |
| Mortgage | — | — | — | — | — | — | — |
| Home equity loans & lines | — | — | — | — | — | — | — |
| Consumer & other | — | — | — | — | — | — | — |
| Total | 2,105 | 21,200 | 3,701 | 4,616 | 2,194 | 5,989 | 39,805 |
| Loans and leases past due 90 days or more and accruing: | | | | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$— | \$— | \$— | \$— | \$1,252 | \$150 | \$1,402 |
| Construction & development | — | — | — | — | — | — | — |
| Residential development | — | — | — | — | — | — | — |
| Commercial | | | | | | | |
| Term | — | — | — | — | — | — | — |
| LOC & other | 470 | — | — | — | — | — | 470 |
| Residential | | | | | | | |
| Mortgage | — | 2,692 | — | — | — | — | 2,692 |
| Home equity loans & lines | — | — | 15 | 133 | 24 | 173 | 345 |
| Consumer & other | — | 20 | — | 3 | 4 | — | 27 |
| Total | 470 | 2,712 | 15 | 136 | 1,280 | 323 | 4,936 |
| Total non-performing loans and leases | 2,575 | 23,912 | 3,716 | 4,752 | 3,474 | 6,312 | 44,741 |
| Other real estate owned: | | | | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$— | \$10,955 | \$598 | \$374 | \$3,069 | \$— | \$14,996 |
| Construction & development | 662 | — | — | — | 163 | 1,435 | 2,260 |
| Residential development | — | — | — | — | — | — | — |
| Commercial | | | | | | | |
| Term | — | — | — | — | — | — | — |
| LOC & other | — | 13 | — | — | 460 | — | 473 |
| Residential | | | | | | | |
| Mortgage | — | 452 | — | — | — | — | 452 |
| Home equity loans & lines | — | — | 46 | 22 | — | — | 68 |
| Consumer & other | — | — | — | — | — | — | — |
| Total | 662 | 11,420 | 644 | 396 | 3,692 | 1,435 | 18,249 |
| Total non-performing assets | \$3,237 | \$35,332 | \$4,360 | \$5,148 | \$7,166 | \$7,747 | \$62,990 |

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(in thousands)

| | December 31, 2012 | | | | | | Total |
|---|-------------------|---------------------|--------------------|------------------------|-----------------------|---------------------------|----------|
| | Washington | Northwest Oregon | Southern Oregon | Northern California | Central California | Greater Bay California | |
| Loans and leases on non-accrual status: | | | | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$139 | \$22,683 | \$3,543 | \$2,514 | \$10,228 | \$4,183 | \$43,290 |
| Construction & development | 662 | — | — | — | 3,515 | — | 4,177 |
| Residential development | — | 5,132 | — | — | — | — | 5,132 |
| Commercial | | | | | | | |
| Term | 114 | 2,602 | 239 | 2,987 | 921 | 177 | 7,040 |
| LOC & other | — | 1,180 | 172 | — | 2,922 | 2,753 | 7,027 |
| Residential | | | | | | | |
| Mortgage | — | — | — | — | — | — | — |
| Home equity loans & lines | — | — | — | — | — | 49 | 49 |
| Consumer & other | — | — | — | — | — | 21 | 21 |
| Total | 915 | 31,597 | 3,954 | 5,501 | 17,586 | 7,183 | 66,736 |
| Loans and leases past due 90 days or more and accruing: | | | | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$— | \$— | \$— | \$— | \$— | \$— | \$— |
| Construction & development | — | — | — | — | — | — | — |
| Residential development | — | — | — | — | — | — | — |
| Commercial | | | | | | | |
| Term | — | 81 | — | — | — | — | 81 |
| LOC & other | — | — | — | — | — | — | — |
| Residential | | | | | | | |
| Mortgage | — | 3,303 | — | — | — | — | 3,303 |
| Home equity loans & lines | — | 355 | 50 | 215 | — | 138 | 758 |
| Consumer & other | 2 | 5 | 20 | 8 | 25 | 30 | 90 |
| Total | 2 | 3,744 | 70 | 223 | 25 | 168 | 4,232 |
| Total non-performing loans and leases | 917 | 35,341 | 4,024 | 5,724 | 17,611 | 7,351 | 70,968 |
| Other real estate owned: | | | | | | | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$— | \$5,822 | \$— | \$747 | \$— | \$— | \$6,569 |
| Construction & development | — | — | — | — | 984 | 1,440 | 2,424 |
| Residential development | 1,693 | 312 | 655 | — | 886 | — | 3,546 |
| Commercial | | | | | | | |
| Term | — | 1,656 | — | — | — | — | 1,656 |
| LOC & other | 907 | 63 | — | — | — | — | 970 |
| Residential | | | | | | | |
| Mortgage | — | 964 | — | — | — | — | 964 |
| Home equity loans & lines | — | 656 | — | — | 191 | 162 | 1,009 |
| Consumer & other | — | — | — | — | — | — | — |
| Total | 2,600 | 9,473 | 655 | 747 | 2,061 | 1,602 | 17,138 |
| Total non-performing assets | \$3,517 | \$44,814 | \$4,679 | \$6,471 | \$19,672 | \$8,953 | \$88,106 |

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As of September 30, 2013, the non-covered non-performing assets of \$63.0 million have been written down by 23%, or \$19.1 million, from their original balance of \$82.1 million.

The Company is continually performing extensive reviews of our permanent commercial real estate portfolio, including stress testing. These reviews were performed on both our non-owner and owner occupied credits. These reviews were completed to verify leasing status, to ensure the accuracy of risk ratings, and to develop proactive action plans with borrowers on projects where debt service coverage has dropped below the Bank's benchmark. The stress testing has been performed to determine the effect of rising cap rates, interest rates and vacancy rates, on this portfolio. Based on our analysis, the Bank believes lending teams are effectively managing the risks in this portfolio. There can be no assurance that any further declines in economic conditions, such as potential increases in retail or office vacancy rates, will exceed the projected assumptions utilized in the stress testing and may result in additional non-covered, non-performing loans in the future.

Non-Covered Restructured Loans

At September 30, 2013 and December 31, 2012, non-covered impaired loans of \$69.5 million and \$70.6 million were classified as non-covered performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The non-covered performing restructured loans on accrual status represent principally the only impaired loans accruing interest at September 30, 2013. In order for a restructured loan to be considered performing and on accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan must be current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Bank had no obligation to lend additional funds on the restructured loans as of September 30, 2013.

Residential Modification Program

The Bank's modification program is designed to enable the Bank to work with its customers experiencing financial difficulty to maximize repayment. While the Bank has designed guidelines similar to the government sponsored Home Affordable Refinance Program and Home Affordable Modification Program, the bank participates in the programs only in the capacity as servicer on behalf of investor loans that have been sold.

A and B Note Workout Structures

The Bank performs A note/B note workout structures as a subset of the Bank's troubled debt restructuring strategy. The amount of loans restructured using this structure was \$4.3 million and \$12.6 million as of September 30, 2013 and December 31, 2012, respectively.

Under an A note/B note workout structure, a new A note is underwritten in accordance with customary troubled debt restructuring underwriting standards and is reasonably assured of full repayment while the corresponding B note is not. The B note is immediately charged-off upon restructuring.

If the loan was on accrual prior to the troubled debt restructuring being documented with the loan legally bifurcated into an A note fully supporting accrual status and a B note or amount fully contractually forgiven and charged-off, the A note may remain on accrual status. If the loan was on nonaccrual at the time the troubled debt restructuring was documented with the loan legally bifurcated into an A note fully supporting accrual status and a B note or amount contractually forgiven and fully charged-off, the A note may be returned to accrual status, and risk rated accordingly, after a reasonable period of performance under the troubled debt restructuring terms. Six months of payment performance is generally required to return these loans to accrual status.

The A note will continue to be classified as a troubled debt restructuring and only may be removed from impaired status in years after the restructuring if (a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and (b) the loan is not impaired based on the terms specified by the restructuring agreement.

The following tables summarize our performing non-covered restructured loans by loan type and region as of September 30, 2013 and December 31, 2012:

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Non-Covered Restructured Loans by Type and Region

(in thousands)

| | September 30, 2013 | | | | | | Total |
|----------------------------|--------------------|---------------------|--------------------|------------------------|-----------------------|---------------------------|----------|
| | Washington | Northwest Oregon | Southern Oregon | Northern California | Central California | Greater Bay California | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$13,252 | \$14,213 | \$3,867 | \$623 | \$10,798 | \$— | \$42,753 |
| Construction & development | — | 8,560 | — | — | 1,092 | — | 9,652 |
| Residential development | — | 7,427 | — | — | 7,925 | — | 15,352 |
| Commercial | | | | | | | |
| Term | — | — | — | — | — | — | — |
| LOC & other | — | — | — | — | 1,265 | — | 1,265 |
| Residential | | | | | | | |
| Mortgage | — | 475 | — | — | — | — | 475 |
| Home equity loans & lines | — | — | — | — | — | — | — |
| Consumer & other | — | — | — | — | — | — | — |
| Total | \$13,252 | \$30,675 | \$3,867 | \$623 | \$21,080 | \$— | \$69,497 |

(in thousands)

| | December 31, 2012 | | | | | | Total |
|----------------------------|-------------------|---------------------|--------------------|------------------------|-----------------------|---------------------------|----------|
| | Washington | Northwest Oregon | Southern Oregon | Northern California | Central California | Greater Bay California | |
| Commercial real estate | | | | | | | |
| Term & multifamily | \$13,482 | \$10,725 | \$3,870 | \$654 | \$10,882 | \$— | \$39,613 |
| Construction & development | — | 8,739 | — | — | 3,813 | — | 12,552 |
| Residential development | — | 8,455 | — | — | 8,686 | — | 17,141 |
| Commercial | | | | | | | |
| Term | — | — | — | 350 | — | — | 350 |
| LOC & other | — | — | — | — | 820 | — | 820 |
| Residential | | | | | | | |
| Mortgage | — | — | — | — | — | — | — |
| Home equity loans & lines | — | — | — | — | — | 126 | 126 |
| Consumer & other | — | — | — | — | — | — | — |
| Total | \$13,482 | \$27,919 | \$3,870 | \$1,004 | \$24,201 | \$126 | \$70,602 |

The following table presents a distribution of our performing non-covered restructured loans by year of maturity, according to the restructured terms, as of September 30, 2013:

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(in thousands)

| Year | Amount |
|------------|----------|
| 2013 | \$42,175 |
| 2014 | 2,120 |
| 2015 | 9,740 |
| 2016 | 8,560 |
| 2017 | 2,475 |
| Thereafter | 4,427 |
| Total | \$69,497 |

The Bank has had varying degrees of success with different types of concessions. The following table presents the percentage of troubled debt restructurings, by type of concession, at September 30, 2013 that have performed and are expected to perform according to the troubled debt restructuring agreement:

| | September 30, 2013 |
|---------------|--------------------|
| Rate | 99% |
| Interest Only | 100% |
| Payment | 100% |
| Combination | 90% |

A further decline in the economic conditions in our general market areas or other factors could adversely impact individual borrowers or the loan portfolio in general. Accordingly, there can be no assurance that loans will not become 90 days or more past due, become impaired or placed on non-accrual status, restructured or transferred to other real estate owned in the future. Additional information about the loan portfolio is provided in Note 5 of the Notes to Condensed Consolidated Financial Statements.

Covered Non-Performing Assets

Covered non-performing assets totaled \$3.0 million, or 0.03% of total assets at September 30, 2013 as compared to \$10.4 million, or 0.09% of total assets at December 31, 2012. These covered nonperforming assets are subject to shared-loss agreements with the FDIC. The following tables summarize our covered non-performing assets by loan type as of September 30, 2013 and December 31, 2012:

(in thousands)

| | September 30, 2013 | | | Total |
|----------------------------------|--------------------|---------|-----------------|---------|
| | Evergreen | Rainier | Nevada Security | |
| Covered other real estate owned: | | | | |
| Commercial real estate | | | | |
| Term & multifamily | \$234 | \$55 | \$72 | \$361 |
| Construction & development | 712 | — | 1,631 | 2,343 |
| Residential development | — | — | 97 | 97 |
| Commercial | | | | |
| Term | — | — | 179 | 179 |
| LOC & other | — | — | — | — |
| Residential | | | | |
| Mortgage | — | — | — | — |
| Home equity loans & lines | — | — | — | — |
| Consumer & other | — | — | — | — |
| Total | \$946 | \$55 | \$1,979 | \$2,980 |

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(in thousands)

| | December 31, 2012 | | | Total |
|----------------------------------|-------------------|---------|-----------------|----------|
| | Evergreen | Rainier | Nevada Security | |
| Covered other real estate owned: | | | | |
| Commercial real estate | | | | |
| Term & multifamily | \$958 | \$1,540 | \$2,371 | \$4,869 |
| Construction & development | 319 | 482 | 3,286 | 4,087 |
| Residential development | 347 | — | 243 | 590 |
| Commercial | | | | |
| Term | — | 332 | — | 332 |
| LOC & other | — | — | — | — |
| Residential | | | | |
| Mortgage | 421 | 75 | — | 496 |
| Home equity loans & lines | — | — | — | — |
| Consumer & other | — | — | — | — |
| Total | \$2,045 | \$2,429 | \$5,900 | \$10,374 |

Total Non-Performing Assets

The following tables summarize our total (including covered and non-covered) nonperforming assets at September 30, 2013 and December 31, 2012:

(dollars in thousands)

| | September 30, 2013 | December 31, 2012 | | |
|---|-----------------------|----------------------|--|---|
| Loans and leases on non-accrual status | \$39,805 | \$66,736 | | |
| Loans and leases past due 90 days or more and accruing | 4,936 | 4,232 | | |
| Total non-performing loans and leases | 44,741 | 70,968 | | |
| Other real estate owned | 21,229 | 27,512 | | |
| Total non-performing assets | \$65,970 | \$98,480 | | |
| Asset quality ratios: | | | | |
| Total non-performing assets to total assets | 0.57 | % 0.83 | | % |
| Total non-performing loans and leases to total loans and leases | 0.59 | % 0.99 | | % |

Allowance for Non-Covered Loan and Lease Losses and Reserve for Unfunded Commitments

The ALLL totaled \$84.7 million at September 30, 2013, a decrease of \$0.7 million from the \$85.4 million at December 31, 2012. The decrease in the ALLL from the prior year-end is a result of improving credit quality characteristics of the non-covered lease and loan portfolio, partially offset by non-covered loan and lease growth. The following table shows the activity in the ALLL for the three and nine months ended September 30, 2013 and 2012:

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Allowance for Non-Covered Loan and Lease Losses

(in thousands)

| | Three months ended | | Nine months ended | | |
|---|--------------------|----------|-------------------|----------|---|
| | September 30, | | September 30, | | |
| | 2013 | 2012 | 2013 | 2012 | |
| Balance, beginning of period | \$85,836 | \$83,618 | \$85,391 | \$92,968 | |
| Loans charged-off: | | | | | |
| Commercial real estate | (3,101) | (4,892) | (6,595) | (18,007) |) |
| Commercial | (1,754) | (1,782) | (9,541) | (8,741) |) |
| Residential | (1,181) | (516) | (2,813) | (4,030) |) |
| Consumer & other | (281) | (454) | (697) | (1,159) |) |
| Total loans charged-off | (6,317) | (7,644) | (19,646) | (31,937) |) |
| Recoveries: | | | | | |
| Commercial real estate | 880 | 1,020 | 2,830 | 2,327 | |
| Commercial | 1,101 | 409 | 2,554 | 3,856 | |
| Residential | 41 | 171 | 221 | 338 | |
| Consumer & other | 145 | 107 | 355 | 324 | |
| Total recoveries | 2,167 | 1,707 | 5,960 | 6,845 | |
| Net charge-offs | (4,150) | (5,937) | (13,686) | (25,092) |) |
| Provision charged to operations | 3,008 | 7,078 | 12,989 | 16,883 | |
| Balance, end of period | \$84,694 | \$84,759 | \$84,694 | \$84,759 | |
| As a percentage of average non-covered loans and leases (annualized): | | | | | |
| Net charge-offs | 0.23 | % 0.38 | % 0.26 | % 0.55 | % |
| Provision for non-covered loan and lease losses | 0.17 | % 0.46 | % 0.25 | % 0.37 | % |
| Recoveries as a percentage of charge-offs | 34.30 | % 22.33 | % 30.34 | % 21.43 | % |

The decrease in non-covered allowance for loan and lease losses as of September 30, 2013 compared to the same period of the prior year is primarily a result of improving credit quality characteristics of the non-covered lease and loan portfolio and a reduction in classified loans, partially offset by non-covered loan and lease growth. Additional discussion on the change in provision for loan and lease losses is provided under the heading Provision for Loan and Lease Losses above. Classified loans include non-performing loans, as well as performing loans risk rated substandard or worse.

All impaired loans are individually evaluated for impairment. If the measurement of each impaired loans' value is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. This can be accomplished by charging-off the impaired portion of the loan or establishing a specific component within the allowance for loan and lease losses. If in management's assessment the sources of repayment will not result in a reasonable probability that the carrying value of a loan can be recovered, the amount of a loan's specific impairment is charged-off against the allowance for loan and lease losses. The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

The following table sets forth the allocation of the allowance for non-covered loan and lease losses and percent of loans in each category to total loans (excluding deferred loan fees) as of September 30, 2013 and December 31, 2012:

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(dollars in thousands)

| | September 30, 2013 | | December 31, 2012 | | |
|---|--------------------|------|-------------------|------|---|
| | Amount | % | Amount | % | |
| Commercial real estate | \$53,593 | 59.9 | % \$54,909 | 62.7 | % |
| Commercial | 23,280 | 28.4 | % 22,925 | 25.7 | % |
| Residential | 7,042 | 11.1 | % 6,925 | 11.0 | % |
| Consumer & other | 779 | 0.7 | % 632 | 0.6 | % |
| Unallocated | — | | — | | |
| Allowance for non-covered loan and lease losses | \$84,694 | | \$85,391 | | |

At September 30, 2013, the recorded investment in non-covered loans classified as impaired totaled \$110.1 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of \$1.4 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former non-covered restructured loans and nonaccrual loans. At December 31, 2012, the total recorded investment in non-covered impaired loans was \$142.4 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of \$1.4 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former non-covered restructured loans and nonaccrual loans at December 31, 2012.

The following table presents a summary of activity in the reserve for unfunded commitments (“RUC”):

Summary of Reserve for Unfunded Commitments Activity

(in thousands)

| | Three months ended | | Nine months ended | |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Balance, beginning of period | \$1,327 | \$1,126 | \$1,223 | \$940 |
| Net change to other expense: | | | | |
| Commercial real estate | 3 | 18 | 27 | 66 |
| Commercial | 11 | 1,607 | 59 | 1,764 |
| Residential | 24 | 2 | 51 | (21) |
| Consumer & other | 10 | 4 | 15 | 8 |
| Total change to other expense | 48 | 1,631 | 152 | 1,817 |
| Balance, end of period | \$1,375 | \$2,757 | \$1,375 | \$2,757 |

We believe that the ALLL and RUC at September 30, 2013 are sufficient to absorb losses inherent in the loan portfolio and credit commitments outstanding as of that date based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan growth, and a detailed review of the quality of the loan portfolio, involves uncertainty and judgment. Therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

Allowance for Covered Loan Losses

The covered ALLL totaled \$11.9 million at September 30, 2013, a decrease of \$6.4 million from the \$18.3 million at December 31, 2012. The decrease in the covered ALLL from the prior year end results from improvements in the amount and the timing of expected cash flows on the acquired loans compared to those previously estimated and

charge-offs of unpaid principal balance against previously established allowance, as measured on a pool basis. The following table summarizes activity related to the allowance for covered loan losses by covered loan portfolio segment for the three and nine months ended September 30, 2013 and 2012, respectively:

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Allowance for Covered Loan Losses

(in thousands)

| | Three months ended | | Nine months ended | | |
|--|--------------------|-----------|-------------------|-----------|---|
| | September 30, | | September 30, | | |
| | 2013 | 2012 | 2013 | 2012 | |
| Balance, beginning of period | \$ 14,367 | \$ 12,977 | \$ 18,275 | \$ 14,320 | |
| Loans charged-off: | | | | | |
| Commercial real estate | (553) | (480) | (1,321) | (2,570) | |
| Commercial | (406) | (450) | (1,219) | (1,257) | |
| Residential | (48) | (73) | (156) | (510) | |
| Consumer & other | (88) | (45) | (420) | (578) | |
| Total loans charged-off | (1,095) | (1,048) | (3,116) | (4,915) | |
| Recoveries: | | | | | |
| Commercial real estate | 182 | 371 | 669 | 1,012 | |
| Commercial | 156 | 215 | 428 | 596 | |
| Residential | 59 | 68 | 185 | 147 | |
| Consumer & other | 153 | 22 | 221 | 70 | |
| Total recoveries | 550 | 676 | 1,503 | 1,825 | |
| Net charge-offs | (545) | (372) | (1,613) | (3,090) | |
| Covered (recapture of) provision charged to operations | (1,904) | 2,927 | (4,744) | 4,302 | |
| Balance, end of period | \$ 11,918 | \$ 15,532 | \$ 11,918 | \$ 15,532 | |
| As a percentage of average covered loans (annualized): | | | | | |
| Net charge-offs | 0.54 | % 0.28 | % 0.50 | % 0.72 | % |
| (Recapture of) provision for covered loan losses | (1.88 |)% 2.17 | % (1.48 |)% 1.00 | % |

The following table sets forth the allocation of the allowance for covered loan losses and percent of covered loans in each category to total loans as of September 30, 2013 and December 31, 2012:

(in thousands)

| | September 30, 2013 | | December 31, 2012 | | |
|-----------------------------------|--------------------|------|-------------------|------|---|
| | Amount | % | Amount | % | |
| Commercial real estate | \$ 7,034 | 81.1 | % \$ 12,129 | 80.7 | % |
| Commercial | 3,895 | 6.9 | % 4,980 | 7.8 | % |
| Residential | 803 | 10.8 | % 804 | 10.3 | % |
| Consumer & other | 186 | 1.2 | % 362 | 1.2 | % |
| Allowance for covered loan losses | \$ 11,918 | | \$ 18,275 | | |

Mortgage Servicing Rights

The following table presents the key elements of our mortgage servicing rights asset for the three and nine months ended September 30, 2013 and 2012, respectively:

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Summary of Mortgage Servicing Rights

(in thousands)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Balance, beginning of period | \$38,192 | \$22,513 | \$27,428 | \$18,184 |
| Additions for new mortgage servicing rights capitalized | 4,072 | 5,642 | 15,182 | 11,923 |
| Changes in fair value: | | | | |
| Due to changes in model inputs or assumptions(1) | 3,406 | (2,770) | 3,739 | (3,833) |
| Other(2) | (3,817) | (896) | (4,496) | (1,785) |
| Balance, end of period | \$41,853 | \$24,489 | \$41,853 | \$24,489 |

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.

(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of September 30, 2013 and December 31, 2012 was as follows:

(dollars in thousands)

| | September 30, 2013 | December 31, 2012 |
|---------------------------------------|--------------------|-------------------|
| Balance of loans serviced for others | \$4,195,759 | \$3,162,080 |
| MSR as a percentage of serviced loans | 1.00 | % 0.87 % |

Mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue.

Goodwill and Other Intangible Assets

At September 30, 2013, we had goodwill and other intangible assets of \$778.1 million, as compared to \$685.3 million at December 31, 2012. The increase in goodwill and other intangibles is a result of the goodwill recorded with the FinPac acquisition which occurred on July 1, 2013. The goodwill recorded in connection with acquisitions represents the excess of the purchase price over the estimated fair value of the net assets acquired. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management evaluates intangible assets with indefinite lives on an annual basis as of December 31. Additionally, we perform impairment evaluations on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition.

The Company has the option to perform a qualitative assessment before completing the goodwill impairment test two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step the Company calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of

goodwill impairment. No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess. The Company performs the first step on an annual basis and in between if certain events or circumstances indicate goodwill may be impaired. No goodwill impairment losses have been recognized in the periods presented.

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At September 30, 2013, we had other intangible assets of \$13.6 million, as compared to \$17.1 million at December 31, 2012. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. No impairment losses separate from the scheduled amortization have been recognized in the periods presented.

Deposits

Total deposits were \$9.1 billion at September 30, 2013, a decrease of \$312.0 million, or 3.3%, as compared to year-end 2012. The decline resulted primarily from the transfer of balances to securities sold under agreements to repurchase and from anticipated run-off of higher priced money market, time and public deposits.

The following table presents the deposit balances by major category as of September 30, 2013 and December 31, 2012:

Deposits

(dollars in thousands)

| | September 30, 2013 | | December 31, 2012 | | |
|----------------------------|--------------------|------------|-------------------|------------|---|
| | Amount | Percentage | Amount | Percentage | |
| Non-interest bearing | \$2,421,008 | 27 | % \$2,278,914 | 24 | % |
| Interest bearing demand | 1,179,351 | 13 | % 1,215,002 | 13 | % |
| Money market | 3,283,085 | 36 | % 3,407,047 | 37 | % |
| Savings | 551,327 | 6 | % 475,325 | 5 | % |
| Time, \$100,000 or greater | 1,140,507 | 13 | % 1,429,153 | 15 | % |
| Time, less than \$100,000 | 491,962 | 5 | % 573,834 | 6 | % |
| Total | \$9,067,240 | 100 | % \$9,379,275 | 100 | % |

The following table presents the average deposit and average rate paid on those deposits, by major category, as of the three and nine months ended September 30, 2013 and 2012:

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(dollars in thousands)

| | Three months ended | | | |
|-------------------------|-----------------------|-----------------|---------------------|-----------------|
| | September 30, 2013 | | 2012 | |
| | Average Deposits | Average Rate | Average Deposits | Average Rate |
| Non-interest bearing | \$2,317,932 | — | \$2,075,097 | — |
| Interest bearing demand | 1,166,527 | 0.06% | 1,126,832 | 0.17% |
| Money market | 3,260,782 | 0.10% | 3,434,406 | 0.21% |
| Savings | 531,645 | 0.06% | 435,115 | 0.07% |
| Time | 1,732,625 | 0.85% | 2,090,269 | 1.00% |
| Total | \$9,009,511 | | \$9,161,719 | |

| | Nine months ended | | | |
|-------------------------|-----------------------|-----------------|---------------------|-----------------|
| | September 30, 2013 | | 2012 | |
| | Average Deposits | Average Rate | Average Deposits | Average Rate |
| Non-interest bearing | \$2,228,530 | — | \$1,968,153 | — |
| Interest bearing demand | 1,173,492 | 0.08% | 1,101,221 | 0.20% |
| Money market | 3,259,253 | 0.11% | 3,470,420 | 0.23% |
| Savings | 508,838 | 0.06% | 417,592 | 0.07% |
| Time | 1,868,414 | 0.93% | 2,139,476 | 1.05% |
| Total | \$9,038,527 | | \$9,096,862 | |

The Bank has an agreement with Promontory Interfinancial Network LLC (“Promontory”) that makes it possible to provide FDIC deposit insurance to balances in excess of current deposit insurance limits. Promontory’s Certificate of Deposit Account Registry Service (“CDARS”) uses a deposit-matching program to exchange Bank deposits in excess of the current deposit insurance limits for excess balances at other participating banks, on a dollar-for-dollar basis, that would be fully insured at the Bank. This product is designed to enhance our ability to attract and retain customers and increase deposits, by providing additional FDIC coverage to customers. CDARS deposits can be reciprocal or one-way. All of the Bank’s CDARS deposits are reciprocal. At September 30, 2013 and December 31, 2012, the Company’s CDARS balances totaled \$94.9 million and \$154.1 million, respectively. Of these totals, at September 30, 2013 and December 31, 2012, \$87.5 million and \$146.1 million, respectively, represented time deposits equal to or greater than \$100,000 but were fully insured under current deposit insurance limits.

The Dodd-Frank Act provided for unlimited deposit insurance for non-interest bearing transactions accounts, excluding NOW (interest bearing deposit accounts) and including all IOLTAs (lawyers' trust accounts), beginning December 31, 2010 for a period of two years. The program expired December 31, 2012. The Dodd-Frank Act permanently raised the current standard maximum federal deposit insurance amount from \$100,000 to \$250,000 per qualified account.

Borrowings

At September 30, 2013, the Bank had outstanding \$215.3 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Bank had outstanding term debt of \$252.0 million at September 30, 2013. Term debt outstanding as of September 30, 2013 decreased \$1.6 million since December 31, 2012 as a result of accretion of purchase accounting adjustments. Term debt assumed in the FinPac acquisition of \$211.2 million was paid upon acquisition. Advances from the FHLB amounted to \$245.0 million of the total term debt and are secured by investment securities and loans secured by real estate. The FHLB advances have fixed interest

rates ranging from 4.46% to 4.72% and mature in 2016 and 2017.

Junior Subordinated Debentures

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We had junior subordinated debentures with carrying values of \$188.7 million and \$196.1 million at September 30, 2013 and December 31, 2012, respectively. The decrease is primarily due to the redemption of \$8.8 million in junior subordinated debentures during the first quarter of 2013 which were assumed in the Circle acquisition in November 2013.

At September 30, 2013, approximately \$219.6 million, or 95% of the total issued amount, had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR. Interest expense for junior subordinated debentures decreased for the three and nine months ended September 30, 2013, compared to the same period in 2012, primarily resulting from decreases in three month LIBOR. Although increases in three month LIBOR will increase the interest expense for junior subordinated debentures, we believe that other attributes of our balance sheet will serve to mitigate the impact to net interest income on a consolidated basis.

On January 1, 2007, the Company elected the fair value measurement option for certain pre-existing junior subordinated debentures of \$97.9 million (the Umpqua Statutory Trusts). The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition. In 2007, the Company issued two series of trust preferred securities and elected to measure each instrument at fair value. Accounting for junior subordinated debentures originally issued by the Company at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost have been presented as separate line items on the balance sheet. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants under current market conditions as of the measurement date.

The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Condensed Consolidated Balance Sheets. In July 2010, the Dodd-Frank Act was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and is expected to effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future.

Due to inactivity in the junior subordinated debenture market and the inability to obtain observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The Company monitors activity in the trust preferred and related markets, to the extent available, changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield

utilized in our discounted cash flow model. Regarding the activity in and condition of the junior subordinated debt market, we noted no observable changes in the current period as it relates to companies comparable to our size and condition, in either the primary or secondary markets. Relating to the interest rate environment, we considered the change in slope and shape of the forward LIBOR swap curve in the current period, the affects of which did not result in a significant change in the fair value of these liabilities.

The Company's specific credit risk is implicit in the credit risk adjusted spread used to determine the fair value of our junior subordinated debentures. As our Company is not specifically rated by any credit agency, it is difficult to specifically attribute changes in our estimate of the applicable credit risk adjusted spread to specific changes in our own creditworthiness versus changes in the market's required return from similar companies. As a result, these considerations must be largely based off of qualitative considerations as we do not have a credit rating and we do not regularly issue senior or subordinated debt that would provide us an independent measure of the changes in how the market quantifies our perceived default risk.

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On a quarterly basis we assess entity-specific qualitative considerations that if not mitigated or represents a material change from the prior reporting period may result in a change to the perceived creditworthiness and ultimately the estimated credit risk adjusted spread utilized to value these liabilities. Entity-specific considerations that positively impact our creditworthiness include: our strong capital position resulting from our successful public stock offerings in 2009 and 2010, that offers us flexibility to pursue business opportunities such as mergers and acquisitions, or expand our footprint and product offerings; having significant levels of on and off-balance sheet liquidity; being profitable; and, having an experienced management team. However, these positive considerations are mitigated by significant risks and uncertainties that impact our creditworthiness and ability to maintain capital adequacy in the future. Specific risks and concerns include: given our concentration of loans secured by real estate in our loan portfolio, a continued and sustained deterioration of the real estate market may result in declines in the value of the underlying collateral and increased delinquencies that could result in an increased of charge-offs; despite recent improvement, our credit quality metrics remain negatively elevated since 2007 relative to historical standards; the continuation of current economic downturn that has been particularly severe in our primary markets could adversely affect our business; recent increased regulation facing our industry, such as the Dodd-Frank Act, will increase the cost of compliance and restrict our ability to conduct business consistent with historical practices, and could negatively impact profitability; we have a significant amount of goodwill and other intangible assets that dilute our available tangible common equity; and the carrying value of certain material, recently recorded assets on our balance sheet, such as the FDIC loss-sharing indemnification asset, are highly reliant on management estimates, such as the timing or amount of losses that are estimated to be covered, and the assumed continued compliance with the provisions of the loss-share agreement. To the extent assumptions ultimately prove incorrect or should we consciously forego or unknowingly violate the guidelines of the agreement, an impairment of the asset may result which would reduce capital.

Additionally, the Company periodically utilizes an external valuation firm to determine or validate the reasonableness of the assessments of inputs and factors that ultimately determines the estimate fair value of these liabilities. The extent we involve or engage these external third parties correlates to management's assessment of the current subordinate debt market, how the current environment and market compares to the preceding quarter, and perceived changes in the Company's own creditworthiness during the quarter. In periods of potential significant valuation changes and at year-end reporting periods we typically engage third parties to perform a full independent valuation of these liabilities. For periods where management has assessed the market and other factors impacting the underlying valuation assumptions of these liabilities, and has determined significant changes to the valuation of these liabilities in the current period are remote, the scope of the valuation specialist's review is limited to a review the reasonableness of management's assessment of inputs. In the fourth quarter of 2012, the Company engaged an external valuation firm to prepare an independent valuation of our junior subordinated debentures measured at fair value and the results were consistent with the Company's valuation.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner similar to the effective yield method as if these instruments were accounted for under the amortized cost method. For the three and nine months ended September 30, 2013 and 2012, we recorded a loss of \$554,000 and \$1.6 million as compared to loss of \$554,000 and \$1.6 million, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework

("Basel III"). Under the original proposed rule, trust preferred security debt issuances would have been phased out of Tier 1 capital into Tier 2 capital over a 10 year period. Under the final rule, consistent with Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, bank holding companies with less than \$15 billion assets as of December 31, 2009 will be grandfathered and may continue to include these instruments in Tier 1 capital, subject to certain restrictions. However, if an institution grows above \$15 billion as a result of an acquisition (as would result from the proposed merger with Sterling), or organically grows above \$15 billion and then makes an acquisition, the combined trust preferred issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). As the Company had less than \$15 billion in assets at December 31, 2009, the Company will be able to continue to include its existing trust preferred securities, less the common stock of the Trusts, in the Company's Tier 1 capital. If the Company exceeds \$15 billion in consolidated assets other than in an organic manner and these instruments no longer qualify as Tier 1 capital, it is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. The Company currently does not intend to redeem the junior subordinated debentures following the proposed merger in order to

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support regulatory total capital levels. At September 30, 2013, the Company's restricted core capital elements were 18.8% of total core capital, net of goodwill and any associated deferred tax liability.

Additional information regarding junior subordinated debentures measured at fair value is included in Note 16 of the Notes to Condensed Consolidated Financial Statements.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of September 30, 2013, under guidance issued by the Board of Governors of the Federal Reserve System. Additional information regarding the terms of the junior subordinated debentures, including maturity/redemption dates, interest rates and the fair value election, is included in Note 9 of the Notes to Condensed Consolidated Financial Statements.

Liquidity and Cash Flow

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs.

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance. Public deposits represent 10.0% of total deposits at September 30, 2013 and 10.6% of total deposits at December 31, 2012. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state's risk assessment of depository institutions. Changes in the pledging requirements for uninsured public deposits may require pledging additional collateral to secure these deposits, drawing on other sources of funds to finance the purchase of assets that would be available to be pledged to satisfy a pledging requirement, or could lead to the withdrawal of certain public deposits from the Bank. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities under agreements to repurchase, borrow on a secured basis from the FHLB or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling \$2.0 billion at September 30, 2013 subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had available lines of credit with the Federal Reserve totaling \$409.5 million subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling \$185.0 million at September 30, 2013. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

The Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Company's revenues are obtained from dividends declared and paid by the Bank. There were \$43.5 million of dividends paid by the Bank to the Company in the nine months ended September 30, 2013. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the \$230.1 million (issued amount) of outstanding junior subordinated debentures. As of September 30, 2013, the Company did not have any borrowing arrangements of its own.

As disclosed in the Consolidated Statements of Cash Flows, net cash provided by operating activities was \$359.3 million during the nine months ended September 30, 2013, with the difference between cash provided by operating activities and net income largely consisting of proceeds from the sale of loans held for sale of \$1.6 billion, offset by

originations of loans held for sale of \$1.4 billion. This compares to net cash provided by operating activities of \$42.2 million during the nine months ended September 30, 2012, with the difference between cash provided by operating activities and net income largely consisting of originations of loans held for sale of \$1.4 billion, offset by proceeds from the sale of loans held for sale of \$1.3 billion.

Net cash of \$283.4 million provided by investing activities during the nine months ended September 30, 2013 consisted principally of proceeds from investment securities available for sale of \$702.9 million, net covered loan paydowns of \$68.8 million, and proceeds from sale of non-covered loans and leases of \$60.3 million, partially offset by \$352.4 million of net non-covered loan originations, net cash paid in acquisition of \$149.7 million, \$51.2 million of purchases of investment securities available for sale, and purchases of premises and equipment of \$25.6 million. This compares to net cash of \$13.4 million used by investing activities during the nine months ended September 30, 2012, which consisted principally of purchases of investment securities available for sale of \$784.8 million, net non-covered loan originations of \$391.7 million and purchases of premises and equipment of \$17.2 million, partially offset by proceeds from investment securities available for sale of \$1.0

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billion, net covered loan paydowns of \$85.5 million, net proceeds from the FDIC indemnification asset of \$26.6 million, and proceeds from the sale of non-covered other real estate owned of \$18.8 million.

Net cash of \$489.4 million used by financing activities during the nine months ended September 30, 2013 primarily consisted of \$311.7 million decrease in net deposits, repayment of term debt of \$211.2 million, dividends paid on common stock of \$33.8 million, and \$8.8 million of repayment of junior subordinated debentures, partially offset by \$78.2 million increase in securities sold under agreements to repurchase. This compares to net cash of \$131.0 million used by financing activities during the nine months ended September 30, 2012, which consisted primarily of \$136.5 million decrease in net deposits, \$25.9 million of dividends paid on common stock, and \$5.4 million of common stock repurchased, partially offset by \$36.4 million increase in net securities sold under agreements to repurchase.

Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2013, it is possible that our deposit growth for 2013 not be maintained at previous levels due to pricing pressure or, in order to generate deposit growth, our pricing may need to be adjusted in a manner that results in increased interest expense on deposits.

Off-balance-Sheet Arrangements

Information regarding Off-Balance-Sheet Arrangements is included in Note 10 of the Notes to Condensed Consolidated Financial Statements.

Concentrations of Credit Risk

Information regarding Concentrations of Credit Risk is included in Note 10 of the Notes to Condensed Consolidated Financial Statements.

Capital Resources

Shareholders' equity at September 30, 2013 was \$1.7 billion, a increase of \$2.0 million from December 31, 2012. The increase in shareholders' equity during the nine months ended September 30, 2013 was principally due to net income of \$73.1 million, offset by other comprehensive loss, net of tax, of \$21.2 million and common stock dividends declared of \$50.8 million.

The following table shows the Company's consolidated and the Bank's capital adequacy ratios, as calculated under regulatory guidelines, compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a "well-capitalized" institution at September 30, 2013 and December 31, 2012:

(dollars in thousands)

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| | Actual Amount | Ratio | | For Capital Adequacy purposes Amount | Ratio | | To be Well Capitalized Amount | Ratio | |
|---|------------------|-------|---|--|-------|---|-------------------------------------|-------|---|
| As of September 30, 2013 | | | | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | \$1,270,155 | 14.74 | % | \$689,365 | 8.00 | % | \$861,706 | 10.00 | % |
| Umpqua Bank | \$1,168,993 | 13.58 | % | \$688,656 | 8.00 | % | \$860,820 | 10.00 | % |
| Tier I Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | \$1,172,166 | 13.61 | % | \$344,501 | 4.00 | % | \$516,752 | 6.00 | % |
| Umpqua Bank | \$1,071,013 | 12.44 | % | \$344,377 | 4.00 | % | \$516,566 | 6.00 | % |
| Tier I Capital (to Average Assets) | | | | | | | | | |
| Consolidated | \$1,172,166 | 10.96 | % | \$427,798 | 4.00 | % | \$534,747 | 5.00 | % |
| Umpqua Bank | \$1,071,013 | 10.03 | % | \$427,124 | 4.00 | % | \$533,905 | 5.00 | % |
| As of December 31, 2012 | | | | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | \$1,357,206 | 16.52 | % | \$657,243 | 8.00 | % | \$821,553 | 10.00 | % |
| Umpqua Bank | \$1,234,010 | 15.03 | % | \$656,825 | 8.00 | % | \$821,031 | 10.00 | % |
| Tier I Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | \$1,254,514 | 15.27 | % | \$328,622 | 4.00 | % | \$492,933 | 6.00 | % |
| Umpqua Bank | \$1,131,373 | 13.78 | % | \$328,410 | 4.00 | % | \$492,615 | 6.00 | % |
| Tier I Capital (to Average Assets) | | | | | | | | | |
| Consolidated | \$1,254,514 | 11.44 | % | \$438,641 | 4.00 | % | \$548,302 | 5.00 | % |
| Umpqua Bank | \$1,131,373 | 10.32 | % | \$438,517 | 4.00 | % | \$548,146 | 5.00 | % |

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework ("Basel III"). The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with the final rules entire requirement phased in on January 1, 2019.

The final rules, among other things, include a new common equity Tier 1 capital ("CET1") to risk-weighted assets ratio, including a capital conservation buffer, which will gradually increase from 4.5% on January 1, 2015 to 7.0% on January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% on January 1, 2015 to 8.5% on January 1, 2019, as well as require a minimum leverage ratio of 4.0%.

Also, under the final rules, trust preferred security debt issuances will be phased out of Tier 1 capital into Tier 2 capital over a 10 year period, except for bank holding companies with less than \$15 billion assets as of December 31, 2009 will be allowed to continue to include these issuances in Tier 1 capital, subject to certain restrictions. If an institution grows above \$15 billion as a result of an acquisition (as would result from the proposed merger with Sterling), or organically grows above \$15 billion and then makes an acquisition, the combined trust preferred issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). As the Company had less than \$15 billion in assets at December 31, 2009, the Company will be able to continue to include its existing trust preferred securities, less the common stock of the Trusts, in the Company's Tier 1 capital. It is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments

to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. The Company currently does not intend to redeem the junior subordinated debentures following the proposed merger in order to support regulatory total capital levels.

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The final rules also provide for a number of adjustments to and deductions from the new CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio. In addition, deductions include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. The Company and the Bank are currently evaluating the provisions of the final rules and expected impact.

The Company's share repurchase plan, which was first approved by the Company's Board of Directors and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. In April 2013, the repurchase program was extended to run through June 2015. As of September 30, 2013, a total of 12.0 million shares remained available for repurchase. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan. In addition, our stock plans provide that option and award holders may pay for the exercise price and tax withholdings in part or whole by tendering previously held shares.

The Company's dividend policy considers, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth to determine the amount of dividends declared, if any, on a quarterly basis. There is no assurance that future cash dividends on common shares will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the three and nine months ended September 30, 2013 and 2012:

Cash Dividends and Payout Ratios per Common Share

| | Three months ended September 30, | | Nine months ended September 30, | | |
|------------------------------------|-------------------------------------|--------|------------------------------------|--------|---|
| | 2013 | 2012 | 2013 | 2012 | |
| Dividend declared per common share | \$0.15 | \$0.09 | \$0.45 | \$0.25 | |
| Dividend payout ratio | 71 | % 41 | % 69 | % 38 | % |

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our assessment of market risk as of September 30, 2013 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Our management, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, has concluded that our disclosure controls and procedures are effective in timely alerting them to information relating to us that is required to be included in our periodic filings with the Securities and Exchange Commission. The disclosure controls and procedures were last evaluated by management as of September 30, 2013.

There have been no changes in our internal controls or in other factors that have materially affected or are likely to materially affect our internal controls over financial reporting subsequent to the date of the evaluation.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of our business, we are involved in legal proceedings that arise in the ordinary course of our business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

In our Form 10-K for the period ending December 31, 2011, we initially reported on a class action lawsuit filed in the U.S. District Court for the Northern District of California against the Bank by Amber Hawthorne relating to overdraft fees and the posting order of point of sale and ACH items. On October 25, 2013, U.S. District Judge Jon S. Tigar issued an order dismissing with prejudice the plaintiff's claims for "unfair" prong of the California Unfair Competition Law (the UCL), breach of the implied covenant of good faith and fair dealing, breach of contract, and unjust enrichment. Accordingly, the only claims remaining in the action are for alleged violation of the "unlawful" and "fraudulent" prongs of the UCL and for conversion.

The Company has also been named as a defendant in two separate class action lawsuits filed in Spokane County, Washington, Superior Court arising from the proposed Sterling merger (Case Nos. 13-2-03848-4 and 13-2-03904-9). Specifically, the plaintiffs in the actions allege that Sterling and its directors breached their fiduciary shareholder duties by agreeing to the merger terms and that the Company aided and abetted such breach. The actions further seek to enjoin the proposed Sterling merger. The court has consolidated the cases before a single judge for further administration. No other material developments have occurred since entry of the court's consolidation order.

See Note 10 of the Notes to the Condensed Consolidated Financial Statements for a discussion of the Company's involvement in litigation pertaining to Visa Inc.

Item 1A. Risk Factors

In addition to the other information set forth in this report, including the risk factors related to the proposed Merger with Sterling stated below, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended December 31, 2012. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

The market price of Umpqua common stock after the Merger may be affected by factors different from those affecting the shares of Sterling or Umpqua currently.

Upon completion of the Merger, holders of Sterling common stock will become holders of Umpqua common stock. Umpqua's business differs in important respects from that of Sterling, and, accordingly, the results of operations of the combined company and the market price of Umpqua common stock after the completion of the Merger may be affected by factors different from those currently affecting the independent results of Umpqua's operations. Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger. Before the Merger and the bank merger may be completed, Umpqua and Sterling must obtain approvals from the Federal Reserve Board, the FDIC, the Director of the Oregon Department of Consumer and Business Services and the Director of the Washington Department of Financial Institutions. Other approvals, waivers or consents from regulators may also be required. In determining whether to grant these approvals the regulators consider a variety of factors, including the regulatory standing of each party. An adverse development in either party's regulatory standing or other factors could result in an inability to obtain approval or delay their receipt. Regulators may impose conditions on the

completion of the Merger or the bank merger or require changes to the terms of the Merger or the bank merger. Such conditions or changes could have the effect of delaying or preventing completion of the Merger or the bank merger or imposing additional costs on or limiting the revenues of the combined company following the Merger and the bank merger, any of which might have an adverse effect on the combined company following the merger. Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the merger may not be realized.

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Umpqua and Sterling have operated and, until the completion of the Merger, will continue to operate, independently. The success of the Merger, including anticipated benefits and cost savings, will depend, in part, on Umpqua's ability to successfully combine and integrate the businesses of Umpqua and Sterling in a manner that permits growth opportunities and does not materially disrupt the existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. The loss of key employees could adversely affect Umpqua's ability to successfully conduct its business, which could have an adverse effect on Umpqua's financial results and the value of its common stock. If Umpqua experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause Umpqua and/or Sterling to lose customers or cause customers to remove their accounts from Umpqua and/or Sterling and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Umpqua and Sterling during this transition period and for an undetermined period after completion of the Merger on the combined company. In addition, the actual cost savings of the Merger could be less than anticipated.

Termination of the merger agreement could negatively impact Umpqua.

If the merger agreement is terminated, there may be various consequences. For example, Umpqua's businesses may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the merger. Also, Umpqua has devoted significant internal resources to the pursuit of this merger and the expected benefit of those resource allocations would be lost if the merger is not completed. Additionally, if the merger agreement is terminated, the market price of Umpqua's common stock could decline to the extent that the current market prices reflect a market assumption that the merger will be completed. If the merger agreement is terminated under certain circumstances, Umpqua may be required to pay to Sterling a termination fee of \$75 million.

Umpqua will be subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on employees and customers may have an adverse effect on Umpqua. These uncertainties may impair Umpqua's ability to attract, retain and motivate key personnel until the Merger is completed, and could cause customers and others that deal with Umpqua to seek to change existing business relationships. Retention of certain employees by Umpqua may be challenging while the merger is pending, as certain employees may experience uncertainty about their future roles with Umpqua. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Umpqua, Umpqua's business could be harmed. In addition, subject to certain exceptions, each of Umpqua and Sterling has agreed to operate its business in the ordinary course prior to closing.

If the Merger is not completed, Umpqua will have incurred substantial expenses without realizing the expected benefits of the Merger.

Umpqua has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement. If the Merger is not completed, Umpqua would have to recognize these expenses without realizing the expected benefits of the Merger.

The merger agreement limits Umpqua's ability to pursue acquisition proposals and requires us to pay a termination fee of \$75 million under limited circumstances, including circumstances relating to acquisition proposals. Additionally, certain provisions of Umpqua's articles of incorporation and bylaws may deter potential acquirers.

The merger agreement prohibits Umpqua from soliciting, initiating, knowingly encouraging or knowingly facilitating certain third party acquisition proposals. The merger agreement also provides that Umpqua must pay a termination fee in the amount of \$75 million in the event that the merger agreement is terminated under certain circumstances, including Umpqua's failure to abide by certain obligations not to solicit acquisition proposals. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Umpqua from considering or proposing such an acquisition. Additionally, Umpqua's restated articles of incorporation authorize

the board of directors, when evaluating a merger, tender offer or exchange offer, sale of substantially all assets or similar transaction to consider the effects on Umpqua's employees, customers, suppliers and communities as well as its shareholders. This provision can be amended only by the affirmative vote of at least 75% of outstanding shares. In addition, under both Oregon and Washington law, certain business combinations involving Umpqua or Sterling with their large shareholders are restricted without the approval of the board of directors of Umpqua or Sterling, respectively.

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In addition, in connection with the merger agreement, certain funds associated with Warburg Pincus & Co. (which we refer to collectively as “Warburg Pincus”) and certain funds associated with Thomas H. Lee Advisors, LLC (which we refer to collectively as “Thomas H. Lee”), which collectively as of the Merger announcement date had the right to vote approximately 44% of the outstanding shares of Sterling common stock, agreed, subject to certain exceptions to vote their shares of Sterling common stock in favor of the Merger.

These provisions and agreements, and other provisions of Umpqua’s articles of incorporation or bylaws or of the Oregon Business Corporation Act (the “OBCA”), could make it more difficult for a third party to acquire control of Umpqua or Sterling or may discourage a potential competing acquirer.

Holders of Umpqua common stock will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

Holders of Umpqua common stock currently have the right to vote in the election of the board of directors and on other matters affecting Umpqua. Upon the completion of the Merger, each Sterling shareholder who receives shares of Umpqua common stock will become a shareholder of Umpqua. It is currently expected that the former shareholders of Sterling as a group will receive shares in the merger constituting approximately 49% of the outstanding shares of Umpqua common stock immediately after the merger. As a result, current shareholders of Umpqua as a group will own approximately 51% of the outstanding shares of Umpqua common stock immediately after the Merger. Because of this, current Umpqua shareholders may have less influence than they now have on the management and policies of Umpqua.

Umpqua’s shareholders may not approve the increase in authorized shares of common stock necessary to pay the merger consideration to Sterling.

Umpqua’s shareholders will be asked to approve an amendment to Umpqua’s restated articles of incorporation to increase the number of authorized shares of no par value common stock from 200,000,000 to 400,000,000. Currently, Umpqua does not have sufficient shares of common stock authorized, unissued and unreserved under its restated articles of incorporation to allow for the issuance of the shares needed to complete the Merger. If Umpqua fails to obtain shareholder approval of the articles amendment proposal, the merger agreement may be terminated.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended September 30, 2013:

| Period | Total number of Common Shares Purchased (1) | Average Price Paid per Common Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (2) | Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan |
|-------------------|---|-------------------------------------|---|---|
| 7/1/13-7/31/13 | 8,602 | \$16.69 | — | 12,013,429 |
| 8/1/13-8/31/13 | 102,348 | \$17.05 | — | 12,013,429 |
| 9/1/13-9/30/13 | 205 | \$16.37 | — | 12,013,429 |
| Total for quarter | 111,155 | \$17.02 | — | |

Common shares repurchased by the Company during the quarter consist of cancellation of 2,026 restricted stock awards and no restricted stock units to pay withholding taxes. During the three months ended September 30, 2013, (1) 109,129 common shares were repurchased in connection with option exercises and no shares were repurchased pursuant to the Company’s publicly announced corporate stock repurchase plan described in (2) below.

The Company's share repurchase plan, which was first approved by its Board of Directors and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase (2) under the plan to 15 million shares. The repurchase program was extended in April 2013 to run through June 2015. As of September 30, 2013, a total of 12.0 million shares remained available for repurchase. The timing and amount of future repurchases will

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depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan.

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

(a) Not applicable

(b) Not applicable

Item 6. Exhibits

The exhibits filed as part of this Report and exhibits incorporated herein by reference to other documents are listed in the Exhibit Index to this Report, which follows the signature page.

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UMPQUA HOLDINGS CORPORATION
(Registrant)

Dated November 6, 2013

/s/ Raymond P. Davis
President and Chief Executive Officer
Raymond P. Davis

Dated November 6, 2013

/s/ Ronald L. Farnsworth
Ronald L. Farnsworth
Executive Vice President/ Chief Financial Officer and
Principal Financial Officer

Dated November 6, 2013

/s/ Neal T. McLaughlin
Neal T. McLaughlin
Executive Vice President/Treasurer and
Principal Accounting Officer

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EXHIBIT INDEX (see separate attachment)

Exhibit

- 2.1 (a) Agreement and Plan of Merger dated as of September 11, 2013, by and between Sterling Financial Corporation and Umpqua Holdings Corporation
- 3.1 (b) Restated Articles of Incorporation with designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and designation of Series B Common Stock Equivalent preferred stock
- 3.2 (c) Bylaws, as amended
- 4.1 (d) Specimen Common Stock Certificate
- 10.1 (e) Investor Letter Agreement, dated September 11, 2013, between Umpqua Holdings Corporation, Sterling Financial Corporation, Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P.
- 10.2 (f) Investor Letter Agreement, dated September 11, 2013, between Umpqua Holdings Corporation, Sterling Financial Corporation, Thomas H. Lee Equity Fund VI, L.P., Thomas H. Lee Parallel Fund VI, L.P. and Thomas H. Lee Parallel (DT) Fund VI, L.P.
- 31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.3 Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document *

101.SCH XBRL Taxonomy Extension Schema Document *

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *

101.DEF XBRL Taxonomy Extension Definition Linkbase Document *

101.LAB XBRL Taxonomy Extension Label Linkbase Document *

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities and Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.

(a) Incorporated by reference to Exhibit 2.1 to Form 8-K filed September 17, 2013

(b) Incorporated by reference to Exhibit 3.1 to Form 10-Q filed May 7, 2010

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(c) Incorporated by reference to Exhibit 3.2 to Form 8-K filed April 22, 2008

(d) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 (No. 333-77259) filed April 28, 1999

(e) Incorporated by reference to Exhibit 10.1 to Form 8-K filed September 17, 2013

(f) Incorporated by reference to Exhibit 10.2 to Form 8-K filed September 17, 2013